



Financial Statements  
June 30, 2017

# Groton Area School District 06-6

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## **Independent Auditor's Report**

The School Board  
Groton Area School District 06-6  
Groton, South Dakota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Groton Area School District 06-6 (the School District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Groton Area School District 06-6, as of June 30, 2017, and the respective changes in financial position and, where, applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 12 to the financial statements, the North Central Special Education Cooperative is no longer required to be reported as a blended component unit in the School District's financial statements as of June 30, 2017, resulting in a change in the reporting entity. Accordingly, adjustments have been made to the net position of the governmental activities as of June 30, 2017 to account for this change. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the schedule of funding progress, budgetary comparison schedules, schedule of employer's share of net pension liability (asset), and schedule of employer's contributions as listed on pages 40 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2018 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota  
January 22, 2018

Groton Area School District 06-6  
Statement of Net Position  
June 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 8,851,678	\$ 62,473	\$ 8,914,151
Taxes receivable	2,425,958	-	2,425,958
Accounts receivable	567,852	5,001	572,853
Inventories	-	10,131	10,131
Capital assets:			
Land, improvements and construction in progress	2,858,492	-	2,858,492
Other capital assets, net of depreciation	5,548,982	21,712	5,570,694
Total assets	<u>20,252,962</u>	<u>99,317</u>	<u>20,352,279</u>
<b>Deferred Outflows of Resources</b>			
Pension related deferred outflows	1,366,537	38,902	1,405,439
	<u>\$ 21,619,499</u>	<u>\$ 138,219</u>	<u>\$ 21,757,718</u>
<b>Liabilities</b>			
Accounts payable	\$ 1,732,432	\$ -	\$ 1,732,432
Unearned revenue	-	16,211	16,211
Noncurrent liabilities:			
Due within one year	666,450	-	666,450
Due in more than one year	9,243,112	-	9,243,112
Net pension liability	561,935	16,057	577,992
Total liabilities	<u>12,203,929</u>	<u>32,268</u>	<u>12,236,197</u>
<b>Deferred Inflows of Resources</b>			
Pension related deferred inflows	1,640	38	1,678
Taxes levied for future period	2,565,444	-	2,565,444
Total deferred inflows of resources	<u>2,567,084</u>	<u>38</u>	<u>2,567,122</u>
<b>Net Position</b>			
Net investment in capital assets	3,601,725	21,712	3,623,437
Restricted for:			
Capital Outlay	730,201	-	730,201
Special Education	37,734	-	37,734
Pension	1,033	-	1,033
SDRS Benefits	802,962	22,807	825,769
Debt Service	150,602	-	150,602
Unrestricted	1,524,229	61,394	1,585,623
Total net position	<u>6,848,486</u>	<u>105,913</u>	<u>6,954,399</u>
	<u>\$ 21,619,499</u>	<u>\$ 138,219</u>	<u>\$ 21,757,718</u>

Groton Area School District 06-6  
Statement of Activities  
Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
<b>Primary Government</b>						
Governmental activities:						
Instruction	\$ 3,695,894	\$ 20,045	\$ 122,986	\$ (3,552,863)	\$ -	\$ (3,552,863)
Support services	2,667,912	945	-	(2,666,967)	-	(2,666,967)
Community services	991	-	-	(991)	-	(991)
*Interest on long-term debt	185,768	-	-	(185,768)	-	(185,768)
Cocurricular activities	283,533	137,531	-	(146,002)	-	(146,002)
Total governmental activities	<u>6,834,098</u>	<u>158,521</u>	<u>122,986</u>	<u>(6,552,591)</u>	<u>-</u>	<u>(6,552,591)</u>
Business-type activities:						
Food service	257,750	147,466	89,129	-	(21,155)	(21,155)
After school program	79,565	55,148	-	-	(24,417)	(24,417)
Driver's education	2,178	25,816	-	-	23,638	23,638
Total business-type activities	<u>339,493</u>	<u>228,430</u>	<u>89,129</u>	<u>-</u>	<u>(21,934)</u>	<u>(21,934)</u>
Total primary government	<u>\$ 7,173,591</u>	<u>\$ 386,951</u>	<u>\$ 212,115</u>	<u>(6,552,591)</u>	<u>(21,934)</u>	<u>(6,574,525)</u>
<b>General Revenues</b>						
Taxes:						
Property taxes				5,167,845	-	5,167,845
Gross receipts tax				567,853	-	567,853
Revenue from State sources:						
State aid				370,066	-	370,066
Other				6,522	-	6,522
Revenue from Federal sources				22,866	-	22,866
Grants and contributions not restricted to specific programs				3,895	-	3,895
Unrestricted investment earnings				12,310	-	12,310
Other general revenues				60,926	-	60,926
Total general revenues				<u>6,212,283</u>	<u>-</u>	<u>6,212,283</u>
Transfers				(4,428)	4,428	-
Change in Net Position				(344,736)	(17,506)	(362,242)
Net Position - Beginning				7,619,334	123,419	7,742,753
Change in Reporting Entity (See Note 12)				(426,112)	-	(426,112)
Net Position - Beginning, as restated				<u>7,193,222</u>	<u>123,419</u>	<u>7,316,641</u>
Net Position - Ending				<u>\$ 6,848,486</u>	<u>\$ 105,913</u>	<u>\$ 6,954,399</u>

\* The School District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

Groton Area School District 06-6  
Balance Sheet – Governmental Funds  
June 30, 2017

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Elementary School Project Fund	Total Governmental Funds
<b>Assets</b>							
Cash and cash equivalents	\$ 1,784,908	\$ 803,014	\$ 141,270	\$ -	\$ 156,238	\$ 5,966,248	\$ 8,851,678
110 Taxes receivable - current	1,477,088	458,161	366,454	-	97,372	-	2,399,075
112 Taxes receivable - delinquent	15,586	5,440	3,320	1,033	1,504	-	26,883
120 Accounts receivable	484,747	-	-	-	-	-	484,747
140 Due from state government	83,105	-	-	-	-	-	83,105
	<u>\$ 3,845,434</u>	<u>\$ 1,266,615</u>	<u>\$ 511,044</u>	<u>\$ 1,033</u>	<u>\$ 255,114</u>	<u>\$ 5,966,248</u>	<u>\$ 11,845,488</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>							
<b>Liabilities</b>							
402 Accounts payable	\$ 24,545	\$ 35,124	\$ 6,287	\$ -	\$ -	\$ 1,243,016	\$ 1,308,972
404 Contracts payable	249,321	-	43,109	-	-	-	292,430
450 Payroll deductions and withholdings and employer matching payable	108,147	-	22,883	-	-	-	131,030
<b>Total liabilities</b>	<u>382,013</u>	<u>35,124</u>	<u>72,279</u>	<u>-</u>	<u>-</u>	<u>1,243,016</u>	<u>1,732,432</u>
<b>Deferred Inflows of Resources</b>							
553 Taxes levied for future period	1,558,611	501,290	401,031	-	104,512	-	2,565,444
551 Unavailable revenue - delinquent property taxes	15,586	5,440	3,320	1,033	1,504	-	26,883
<b>Total deferred inflows of resources</b>	<u>1,574,197</u>	<u>506,730</u>	<u>404,351</u>	<u>1,033</u>	<u>106,016</u>	<u>-</u>	<u>2,592,327</u>
<b>Fund Balances</b>							
<b>Restricted:</b>							
Capital Outlay	-	724,761	-	-	-	-	724,761
Special Education	-	-	34,414	-	-	-	34,414
Capital Projects	-	-	-	-	-	4,723,232	4,723,232
Bond Redemption	-	-	-	-	149,098	-	149,098
<b>Assigned:</b>							
Unemployment	32,052	-	-	-	-	-	32,052
Unassigned	1,857,172	-	-	-	-	-	1,857,172
<b>Total fund balances</b>	<u>1,889,224</u>	<u>724,761</u>	<u>34,414</u>	<u>-</u>	<u>149,098</u>	<u>4,723,232</u>	<u>7,520,729</u>
	<u>\$ 3,845,434</u>	<u>\$ 1,266,615</u>	<u>\$ 511,044</u>	<u>\$ 1,033</u>	<u>\$ 255,114</u>	<u>\$ 5,966,248</u>	<u>\$ 11,845,488</u>



Groton Area School District 06-6  
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
 June 30, 2017

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Total Fund Balances - Governmental Funds	\$ 7,520,729
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	8,407,474
Long-term liabilities, including bonds payable, financing lease payables, SD SDBF assessment, and early retirement payables are not due and payable in the current period and, therefore, are not reported in the funds.	(9,645,581)
Unamortized balance of premiums and discounts are not due and payable in the current period and, therefore, are not reported in the funds.	(263,981)
Assets such as taxes receivable (delinquent) and special assessment receivables (current, delinquent and unearned) are not available to pay for current period expenditures and, therefore, are deferred inflows of resources in the funds.	26,883
Net pension liability (asset), pension related deferred inflows of resources, and pension related deferred outflows of resources do not represent available financial resources and, therefore, are not reported in the funds.	802,962
Net Position - Governmental Funds	<u><u>\$ 6,848,486</u></u>

Groton Area School District 06-6  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2017

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Elementary School Project Fund	Total Governmental Funds
Revenues							
1000 Revenue from local sources							
1100 Taxes:							
1110 Ad valorem taxes	\$ 3,089,755	\$ 1,001,259	\$ 740,926	\$ 95,158	\$ 211,731	\$ -	\$ 5,138,829
1120 Prior year's ad valorem taxes	10,566	2,947	1,778	556	821	-	16,668
1140 Gross receipt taxes	567,853	-	-	-	-	-	567,853
1190 Penalties and interest on taxes	6,249	1,659	1,088	297	416	-	9,709
1300 Tuition and fees:							
1360 Regular day school transportation fees	945	-	-	-	-	-	945
1500 Earnings on investments and deposits	12,310	-	-	-	-	-	12,310
1700 Cocurricular activities:							
1710 Admissions	48,511	-	-	-	-	-	48,511
1740 Rentals	2,521	-	-	-	-	-	2,521
1790 Other pupil activity income	86,499	-	-	-	-	-	86,499
1900 Other revenue from local sources:							
1910 Rentals	1,950	-	-	-	-	-	1,950
1920 Contributions and donations	3,895	-	-	-	-	-	3,895
1970 Charges for services	6,512	-	13,533	-	-	-	20,045
1990 Other	12,296	1,600	-	-	-	-	13,896
2000 Revenue from intermediate sources							
2100 County sources:							
2110 County apportionment	44,271	-	-	-	-	-	44,271
2200 Revenue in lieu of taxes	465	-	-	-	-	-	465
3000 Revenue from State sources							
3100 Grants-in-aid:							
3110 Unrestricted grants-in-aid	370,066	-	-	-	-	-	370,066
3900 Other State revenue	6,384	-	138	-	-	-	6,522
4000 Revenue from Federal sources							
4100 Grants-in-aid:							
4130 Unrestricted grants-in-aid received from Federal government through an intermediate source	5,122	-	-	-	-	-	5,122
4140 Restricted grants-in-aid received directly from Federal government	19,692	-	-	-	-	-	19,692
4150-4199 Restricted grants-in-aid received from Federal government through the State	98,172	-	-	-	-	-	98,172
4900 Other Federal revenue	1,000	21,866	-	-	-	-	22,866
Total revenues	<u>4,395,034</u>	<u>1,029,331</u>	<u>757,463</u>	<u>96,011</u>	<u>212,968</u>	<u>-</u>	<u>6,490,807</u>

Groton Area School District 06-6  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2017

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Elementary School Project Fund	Total Governmental Funds
Expenditures							
1000 Instruction							
1100 Regular programs:							
1110 Elementary	1,081,475	82,781	-	40,663	-	-	1,204,919
1120 Middle school/junior high	429,755	4,150	-	16,076	-	-	449,981
1130 High school	881,465	60,122	-	33,098	-	-	974,685
1140 Preschool services	80,115	47	-	-	-	-	80,162
1200 Special programs:							
1210 Gifted and talented	3,555	74	-	-	-	-	3,629
1220 Programs for special education	-	4,704	640,847	-	-	-	645,551
1230 At-risk youth	62,704	-	-	-	-	-	62,704
1250 Culturally different	27,989	113	-	-	-	-	28,102
1270 Educationally deprived	58,790	643	-	-	-	-	59,433
2000 Support services							
2100 Pupils:							
2120 Guidance	125,938	134	-	-	-	-	126,072
2130 Health	38,626	511	-	-	-	-	39,137
2140 Psychological	-	-	16,573	-	-	-	16,573
2150 Speech pathology	-	-	41,808	-	-	-	41,808
2170 Student therapy services	-	-	91,924	-	-	-	91,924
2200 Support services - instructional staff:							
2210 Improvement of instruction	16,797	-	-	-	-	-	16,797
2220 Educational media	165,080	94,324	-	-	-	-	259,404
2300 Support services - general administration:							
2310 Board of education	68,429	2,299	-	-	-	-	70,728
2320 Executive administration	128,506	-	-	-	-	-	128,506
2400 Support services - school administration:							
2410 Office of the principal	264,052	627	-	-	-	-	264,679
2490 Other	452	-	-	-	-	-	452
2500 Support services - business:							
2520 Fiscal services	175,496	-	-	-	-	-	175,496
2530 Facilities acquisition and construction	31,000	13,263	-	-	-	22,647	66,910
2540 Operation and maintenance of plant	683,325	35,923	-	-	-	-	719,248
2550 Pupil transportation	310,293	5,766	-	-	-	-	316,059

Groton Area School District 06-6  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2017

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Elementary School Project Fund	Total Governmental Funds
2700 Support services - special education:							
2710 Administrative costs	-	-	14,158	-	-	-	14,158
2730 Transportation costs	-	-	7,216	-	-	-	7,216
2740 Other health impairments	-	-	8,062	-	-	-	8,062
2750 Other special education costs	-	-	3,961	-	-	-	3,961
4000 Nonprogrammed charges							
4500 Early retirement payments	5,383	-	-	-	-	-	5,383
5000 Debt services	-	318,630	-	-	204,783	-	523,413
6000 Cocurricular activities							
6900 Combined activities	203,929	25,261	-	-	-	-	229,190
7500 Capital outlay	-	282,811	-	-	-	2,754,896	3,037,707
<b>Total expenditures</b>	<b>4,843,154</b>	<b>932,183</b>	<b>824,549</b>	<b>89,837</b>	<b>204,783</b>	<b>2,777,543</b>	<b>9,672,049</b>
<b>Excess of Revenue under Expenditures</b>	<b>(448,120)</b>	<b>97,148</b>	<b>(67,086)</b>	<b>6,174</b>	<b>8,185</b>	<b>(2,777,543)</b>	<b>(3,181,242)</b>
<b>Other Financing Sources</b>							
5510 Transfers in	250,000	-	-	-	-	7,500,775	7,750,775
8110 Transfer out	-	(7,750,775)	-	(4,428)	-	-	(7,755,203)
5120 General long-term debt issued	-	8,512,740	-	-	-	-	8,512,740
5130 Sale of surplus property	344	-	-	-	-	-	344
8120 Payment to refunded debt escrow agency	-	(1,108,989)	-	-	-	-	(1,108,989)
8150 Premium on bonds issued	-	271,324	-	-	-	-	271,324
<b>Total other financing sources</b>	<b>250,344</b>	<b>(75,700)</b>	<b>-</b>	<b>(4,428)</b>	<b>-</b>	<b>7,500,775</b>	<b>7,670,991</b>
<b>Net Change in Fund Balances</b>	<b>(197,776)</b>	<b>21,448</b>	<b>(67,086)</b>	<b>1,746</b>	<b>8,185</b>	<b>4,723,232</b>	<b>4,489,749</b>
<b>Fund Balance - Beginning</b>	<b>2,087,000</b>	<b>703,313</b>	<b>101,500</b>	<b>(1,746)</b>	<b>140,913</b>	<b>-</b>	<b>3,030,980</b>
<b>Fund Balance - Ending</b>	<b>\$ 1,889,224</b>	<b>\$ 724,761</b>	<b>\$ 34,414</b>	<b>\$ -</b>	<b>\$ 149,098</b>	<b>\$ 4,723,232</b>	<b>\$ 7,520,729</b>

Groton Area School District 06-6

Reconciliation to the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-  
Wide Statement of Activities  
Year Ended June 30, 2017

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Net Change in Fund Balances - Total Governmental Funds	\$ 4,489,749
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$3,037,707) exceeded depreciation (\$348,261) in the current period.	2,689,446
In both the government-wide and fund financial statements, revenues from tax levies are applied to finance the budget of a particular period. Accounting for revenues from tax accruals in the funds' statements differs from the accounting in the government-wide statements in that the fund financial statements require the amounts to be "available." This amount reflects the application of both the application period and "availability criteria."	2,639
The issuance of long-term debt is an other financing source in the fund statements but an increase in long-term liabilities on the government-wide statements.	(8,512,740)
Repayment of early retirement principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. New early retirement approved was \$0, payments of early retirement were \$5,000.	5,000
Governmental funds report the effect of premiums and discounts when the debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. This is the amount of premiums added in the current period.	(271,324)
Governmental funds report the effect of premiums and discounts when the debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. This is the amount amortized in the current period.	7,343
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	1,439,674
Expenses related to pensions reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the funds.	<u>(194,523)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (344,736)</u></u>

Groton Area School District 06-6  
Statement of Net Position – Proprietary Funds  
June 30, 2017

	Enterprise Funds		
	Food Service Fund	Other	Total
<b>Assets</b>			
<b>Current Assets</b>			
101 Cash and cash equivalents	\$ 33,578	\$ 28,895	\$ 62,473
120 Accounts receivable	-	5,001	5,001
170 Inventory of supplies	967	-	967
171 Inventory of stores purchased for resale	2,840	-	2,840
172 Inventory of donated food	6,324	-	6,324
Total current assets	<u>43,709</u>	<u>33,896</u>	<u>77,605</u>
<b>Noncurrent Assets</b>			
200 Capital assets:			
204 Machinery and equipment - local funds	124,941	-	124,941
Less accumulated depreciation	<u>(103,229)</u>	<u>-</u>	<u>(103,229)</u>
Total noncurrent assets	<u>21,712</u>	<u>-</u>	<u>21,712</u>
<b>Deferred Outflows of Resources</b>			
252 Pension related deferred outflows	<u>26,475</u>	<u>12,427</u>	<u>38,902</u>
	<u>\$ 91,896</u>	<u>\$ 46,323</u>	<u>\$ 138,219</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
474 Unearned revenue	<u>\$ 12,680</u>	<u>\$ 3,531</u>	<u>\$ 16,211</u>
Total current liabilities	<u>12,680</u>	<u>3,531</u>	<u>16,211</u>
<b>Noncurrent Liabilities</b>			
507 Net pension liability	<u>11,034</u>	<u>5,023</u>	<u>16,057</u>
Total noncurrent liabilities	<u>11,034</u>	<u>5,023</u>	<u>16,057</u>
<b>Deferred Inflows of Resources</b>			
554 Pension related deferred inflows	<u>23</u>	<u>15</u>	<u>38</u>
<b>Net Position</b>			
706 Net investment in capital assets	21,712	-	21,712
707.2 SDRS pension benefits	15,418	7,389	22,807
708 Unrestricted net position	<u>31,029</u>	<u>30,365</u>	<u>61,394</u>
Total net position	<u>68,159</u>	<u>37,754</u>	<u>105,913</u>
	<u>\$ 91,896</u>	<u>\$ 46,323</u>	<u>\$ 138,219</u>

Groton Area School District 06-6  
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds  
Year Ended June 30, 2017

	Enterprise Funds		
	Food Service Fund	Other	Total
Operating Revenue			
Tuition and fees			
1310 Student tuition	\$ -	\$ 9,550	\$ 9,550
1980 Parent tuition	-	55,148	55,148
Sales			
1610 To pupils	137,065	-	137,065
1620 To adults	2,089	-	2,089
1660 Other	8,312	16,266	24,578
Total operating revenue	<u>147,466</u>	<u>80,964</u>	<u>228,430</u>
Operating Expenses			
100 Salaries	87,629	45,466	133,095
200 Employee benefits	34,298	15,127	49,425
300 Purchased services	5,794	4,503	10,297
400 Supplies	13,350	16,647	29,997
461 Cost of sales - purchased food	91,216	-	91,216
462 Cost of sales - donated food	20,321	-	20,321
910 Depreciation - local funds	5,142	-	5,142
Total operating expenses	<u>257,750</u>	<u>81,743</u>	<u>339,493</u>
Operating Loss	<u>(110,284)</u>	<u>(779)</u>	<u>(111,063)</u>
Nonoperating Revenue			
State sources			
3810 Cash reimbursements	1,221	-	1,221
Federal sources			
4810 Cash reimbursements	64,846	-	64,846
4820 Donated food	23,062	-	23,062
Total nonoperating revenue	<u>89,129</u>	<u>-</u>	<u>89,129</u>
Income Before Transfers	<u>(21,155)</u>	<u>(779)</u>	<u>(21,934)</u>
Transfers In	<u>2,942</u>	<u>1,486</u>	<u>4,428</u>
Change in Net Position	(18,213)	707	(17,506)
Net Position - Beginning	<u>86,372</u>	<u>37,047</u>	<u>123,419</u>
Net Position - Ending	<u>\$ 68,159</u>	<u>\$ 37,754</u>	<u>\$ 105,913</u>

Groton Area School District 06-6  
Statement of Cash Flows – Proprietary Funds  
Year Ended June 30, 2017

	Enterprise Funds		
	Food Service Fund	Other	Total
Cash Flows provided from (used for) Operating Activities			
Receipts from customers	\$ 152,118	\$ 81,968	\$ 234,086
Payments to suppliers	(110,798)	(21,150)	(131,948)
Payments to employees	(117,823)	(58,906)	(176,729)
Net Cash provided from (used for) Operating Activities	<u>(76,503)</u>	<u>1,912</u>	<u>(74,591)</u>
Cash Flows from Noncapital Financing Activities			
Transfers in	2,942	1,486	4,428
Operating subsidies	66,068	-	66,068
Net Cash from Noncapital Financing Activities	<u>69,010</u>	<u>1,486</u>	<u>70,496</u>
Net Change in Cash and Cash Equivalents	(7,493)	3,398	(4,095)
Cash and Cash Equivalents, Beginning of Year	<u>41,071</u>	<u>25,497</u>	<u>66,568</u>
Cash and Cash Equivalents, End of Year	<u>\$ 33,578</u>	<u>\$ 28,895</u>	<u>\$ 62,473</u>
Reconciliation of Operating Income (Loss) to Net Cash from (used for) Operating Activities			
Operating income (loss)	\$ (110,284)	\$ (779)	\$ (111,063)
Adjustments to reconcile operating income (loss) to net cash used for operating activities:			
Depreciation expense	5,142	-	5,142
Non-cash inventory costs	20,321	-	20,321
Change in assets and liabilities:			
Accounts receivable	-	543	543
Inventories	(438)	-	(438)
Pension liability, asset, deferred inflows and deferred outflows	4,104	1,687	5,791
Unearned revenue	4,652	461	5,113
Net Cash provided from (used for) Operating Activities	<u>\$ (76,503)</u>	<u>\$ 1,912</u>	<u>\$ (74,591)</u>
Noncash Investing, Capital and Financing Activities			
Value of commodities received	\$ 23,062	\$ -	\$ 23,062



Groton Area School District 06-6  
Statement of Fiduciary Net Position  
June 30, 2017

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	Private Purpose Trust Fund	Agency Fund
Assets		
Cash	\$ -	232,120
Investments	94,965	-
	\$ 94,965	\$ 232,120
Liabilities		
Amounts held for others	\$ -	\$ 232,120
Total liabilities	-	232,120
Net Position		
Net position held in trust for scholarships	94,965	-
Total net position	94,965	-
	\$ 94,965	\$ 232,120

Groton Area School District 06-6  
Statement of Changes in Fiduciary Net Position  
June 30, 2017

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	Private Purpose Trust Fund
Additions	
Investment income	\$ 13,334
Total additions	<u>13,334</u>
Deductions	
Scholarships	3,000
Investments fees	840
Total deductions	<u>3,840</u>
Change in Net Position	9,494
Net Position - Beginning	<u>85,471</u>
Net Position - Ending	<u><u>\$ 94,965</u></u>

## **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Groton Area School District 06-6 (the School District) conform to generally accepted accounting principles applicable to government entities in the United States of America.

### **Financial Reporting Entity**

The School District formation is the result of the consolidation of Groton School District 06-6 and Bristol School District No. 18-1, as approved by voters in the respective districts effective July 1, 2004. The School District consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the School District's financial statements to be misleading or incomplete.

The School District participates in a cooperative service unit with several other school districts. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the School District as a component unit, but are discussed in these notes because of the nature of their relationship with the School District.

### **Basis of Presentation**

The financial statements of the School District have been prepared in accordance with generally accepted accounting principles (GAAP) as presented by the Governmental Accounting Standards Board (GASB). The GASB is the standard setting body for governmental accounting and financial reporting.

### **Government-Wide Financial Statements**

The statement of net position and statement of activities display information about the School District as a whole. They include all funds of the School District except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net position reports all financial and capital resources, in a net position form (assets and deferred outflows of resources minus liabilities and deferred inflows of resources equals net position). Net position are displayed in three components, as applicable, net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

## **Fund Financial Statements**

Fund financial statements of the School District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the School District or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The funds of the School District are described below within their respective fund types.

### **Governmental Funds**

**General Fund** - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the School District, excluding Capital Outlay Fund and Special Education Fund expenditures. The General Fund is always a major fund.

**Special Revenue Fund Types** - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Capital Outlay, Special Education, Pension, and Capital Projects Funds are the special revenue funds maintained by the School District.

**Capital Outlay Fund** - A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks and instructional software. This fund is financed by property taxes. This is a major fund.

**Special Education Fund** - A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the School District. This fund is financed by grants and property taxes. This is a major fund.

**Pension Fund** - A fund established by SDCL 13-10-6 for the purpose of continuing a fund for the payment of pensions to retired employees of school districts, which have established such systems. This fund is financed by property taxes. This is a major fund.

Debt Service Fund Types - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Bond Redemption Fund - A fund established by SDCL 13-16-13 to account for the proceeds of a special property tax restricted to use for the payment of principal and interest on general obligation bonded debt. The Bond Redemption Fund is the only debt service fund maintained by the School District. This is a major fund.

Capital Projects Funds – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

The Elementary School Project Fund is the only capital projects fund maintained by the School District. This is a major fund.

### **Proprietary Funds**

Enterprise Fund Types - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Food Service Fund - A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

Other Fund – A fund used to record financial transactions related to the driver’s education operations and the after school program operations. This fund is financed by tuition charges and the after school program. This is a major fund.

### **Fiduciary Funds**

Fiduciary Funds are never considered to be major funds.

Agency Fund Types - Agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The School District maintains agency funds to account for student funds generated within the School District by the students or other School District organizations.

Private –Purpose Trust Fund Types – Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefits individuals, private organizations, or other governments. The School District maintains the following private-purpose trust fund, which is used for the purpose of providing scholarships to students:

- Dick and Gert Ruden Scholarship Fund

## **Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

### **Measurement Focus**

#### **Government-Wide Financial Statements**

In the government-wide statement of net position and statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

#### **Fund Financial Statements**

In the fund financial statements, the “current financial resources” measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary and similar trust funds.

### **Basis of Accounting**

#### **Government-Wide Financial Statements**

In the government-wide statement of net position and statement of activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

#### **Fund Financial Statements**

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the School District, the length of that cycle is 60 days. Utility tax receivables and grant receivables which are accrued at June 30, 2017 are due from the state government for \$83,105 and the counties for \$484,747.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

## **Interfund Eliminations and Reclassifications**

### **Government-Wide Financial Statements**

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as internal balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged, in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

### **Fund Financial Statements**

Noncurrent portions of long-term interfund receivables are reported as nonspendable fund balance to the extent that the proceeds from the collection of those receivables are not restricted, committed, or assigned. Current portions of interfund receivables are considered "available spendable resources" and are reported in the appropriate fund balance category.

### **Inventory**

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out (FIFO). Donated commodities are valued at estimated market value based on the USDA price list at date of receipt. In the government-wide financial statements and the proprietary funds in the fund financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the governmental fund financial statements, inventories in the General Fund and special revenue funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a non-spendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. The School District did not have any material amounts of inventory in the General Fund or special revenue funds.

### **Capital Assets**

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

**Government-Wide Statements**

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

The total June 30, 2017 balance of capital assets for governmental activities is all valued at original cost. The total June 30, 2017 balance of capital assets for business-type activities are all valued at original cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide statement of activities, with net capital assets reflected in the statement of net position. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land*	All	N/A	N/A
Improvements	\$ 5,000	Straight-line	15-25 years
Buildings	25,000	Straight-line	50 years
Machinery and equipment	5,000	Straight-line	5-20 years

*\*Land is an inexhaustible capital asset and is not depreciated.*

**Fund Financial Statements**

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

**Unearned Revenue**

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported unearned revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

**Long-Term Liabilities**

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of long-term bonds and financing leases.



In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

### **Program Revenues**

In the government-wide statement of activities, reported program revenues derive directly from the program itself or from parties other than the School District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for Services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services.
2. Program-Specific Operating Grants and Contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-Specific Capital Grants and Contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

### **Property Taxes**

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year. The county bills and collects the School District's taxes and remits them to the School District.

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance current year's appropriations and; therefore, are not susceptible to accrual, has been reported as deferred inflows of resources in both the fund financial statements and government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period."

### **Proprietary Funds Revenue and Expense Classifications**

In the proprietary fund's statement of activities, revenues and expenses are classified in a manner consistent with how they are classified in the statement of cash flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

### **Cash and Cash Equivalents**

The School District pools its cash resources for deposit purposes. For the purpose of financial reporting, “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less.

### **Equity Classifications**

#### **Government-Wide Statements**

Equity is classified as net position and is displayed in three components:

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

#### **Fund Financial Statements**

Governmental fund equity is classified as fund balance, and may distinguish between non-spendable, restricted, committed, assigned and unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for agency funds, which have no fund equity) is reported as net position held in trust for other purposes.

#### **Application of Net Position**

It is the School District’s policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

#### **Fund Balance Classification Policies and Procedures**

In accordance with GASB No. 54, the School District classifies governmental fund balances as follows:

- Nonspendable – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

- Committed – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the School Board or Business Manager.
- Unassigned – Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The School District uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the School District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The School District does not have a formal minimum fund balance policy.

The purpose of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Capital Outlay	Property taxes
Special Education	Property taxes, grants and State aid
Pension	Property taxes

### **Pensions**

For purposes of measuring the net pension liability (asset), deferred outflows/inflows of resources, and pension expense and revenue, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deductions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### **Deferred Inflows and Outflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has two items that qualify for reporting in this category. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end, and changes in the net pension liability (asset) not included in pension expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has two types of items that qualify for reporting in this category. The District reports unavailable revenues from property taxes on the government-wide statement of net position and the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item relates to changes in the net pension liability (asset) not included in pension expense report in the government-wide statement of net position.

### **Rounding**

Computer generated rounding variances exist in the basic financial statements and supplementary information. The variances result from values being as whole numbers rather than with cents.

## **Note 2 - Deposits and Investments**

The School District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

### **Deposits**

The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost plus interest, if the account is of the add-on type.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from investments to the fund making the investment.

**Custodial Credit Risk** – Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned. The School District does not have a policy for custodial credit risk. As of June 30, 2017, all of the School District's deposits were covered by insurance or collateral in accordance with the deposit policy.

The actual bank balances at June 30, 2017 were as follows:

	<u>Bank Balance</u>
Insured (FDIC/NCUA)	\$ 250,000
Uninsured, collateral jointly held by State's/School District's agent in the name of the State and the pledging financial institution	8,940,760
	\$ 9,190,760
The School District's carrying amount of deposits at June 30, 2017	\$ 9,146,271

Reconciliation of deposits to government-wide statement of net position:

Cash and cash equivalents	\$ 8,914,151
Add: Agency fund cash (not included in government-wide statement of net position)	232,120
	\$ 9,146,271

### Investments

In general, SDCL 4-5-6 permits School District funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

**Custodial Credit Risk** – For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does not have an investment policy for custodial risk. When the School District does own investments, they are held in the School District's name.

**Interest Rate Risk** – The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk** – Currently, the School District has no policy in regard to credit risk.

**Concentration of Credit Risk** – The School District does not have a policy in place.

**Note 3 - Changes in Capital Assets**

A summary of changes in capital assets for the year ended June 30, 2017 is as follows:

Primary Government Governmental Activities	Balance 7/1/2016	Increases	Decreases	Balance 6/30/2017
Capital assets not being depreciated:				
Land	\$ 103,596	\$ -	\$ -	\$ 103,596
Construction in progress	-	2,754,896	-	2,754,896
Total capital assets not being depreciated	103,596	2,754,896	-	2,858,492
Capital assets being depreciated:				
Buildings	8,441,871	24,071	-	8,465,942
Improvements other than buildings	1,027,894	35,364	-	1,063,258
Machinery and equipment	1,655,288	223,376	-	1,878,664
Total capital assets being depreciated	11,125,053	282,811	-	11,407,864
Less accumulated depreciation for:				
Buildings	3,794,758	182,714	-	3,977,472
Improvements other than buildings	412,787	78,856	-	491,643
Machinery and equipment	1,303,076	86,691	-	1,389,767
Total accumulated depreciation	5,510,621	348,261 **	-	5,858,882
Total capital assets being depreciated, net	5,614,432	(65,450)	-	5,548,982
Governmental activity capital assets, net	\$ 5,718,028	\$ 2,689,446	\$ -	\$ 8,407,474

\*\* Depreciation expense was charged to functions as follows:

Governmental activities:			
Instruction			\$ 49,447
Support services			247,687
Community services			991
Co-curricular activities			50,136
Total depreciation expense - governmental activities			\$ 348,261

Proprietary Fund	Balance 7/1/2016	Increases	Decreases	Balance 6/30/2017
Capital assets being depreciated:				
Machinery and equipment	\$ 124,941	\$ -	\$ -	\$ 124,941
Total capital assets being depreciated	124,941	-	-	124,941
Less accumulated depreciation for:				
Machinery and equipment	98,086	5,143 **	-	103,229
Total accumulated depreciation	98,086	5,143	-	103,229
Total capital assets being depreciated, net	26,855	(5,143)	-	21,712
Proprietary fund activities capital assets, net	\$ 26,855	\$ (5,143)	\$ -	\$ 21,712

\*\* Depreciation expense was charged to functions as follows:

Proprietary fund activities:			
Food services			\$ 5,143
Total depreciation expense - proprietary fund activities			\$ 5,143

As of June 30, 2017, the School District has committed approximately \$7,500,000 for the elementary school renovation project, of which \$2,754,896 in payments had been made or accrued as accounts payable at year-end. The project is funded by capital outlay certificates issued in the year ended June 30, 2017.

**Note 4 - Long-Term Liabilities**

A summary of the changes in long-term liabilities for the year ended June 30, 2017 is as follows:

Governmental Activities	7/1/2016	Increase	Decrease	6/30/2017	Due In One Year
General obligation	\$ 2,180,235	\$ 8,460,000	\$ (1,375,235)	\$ 9,265,000	\$ 530,000
Financing (capital acquisition) leases	75,280	52,740	(64,439)	63,581	42,853
SD SDBF assessment	307,000	-	-	307,000	75,040
Unamortized premium	-	271,324	(7,343)	263,981	13,557
Early retirement payable (See Note 5)	15,000	-	(5,000)	10,000	5,000
	<u>\$ 2,577,515</u>	<u>\$ 8,784,064</u>	<u>\$ (1,452,017)</u>	<u>\$ 9,909,562</u>	<u>\$ 666,450</u>

**Primary Government**

**Governmental Activities**

Debt payable at June 30, 2017 is comprised of the following:

<b>General Obligation Debt</b>		
Series 2016 General Obligation Bonds, matures December 2020, with interest rates varying from 1.00%-2.00% for the life of the loan, paid by the Bond Redemption Fund.		\$ 805,000
Series 2016 General Obligation Certificates, matures December 2036, with interest rates varying from 2.00%-4.00% for the life of the loan, paid by the Capital Outlay Fund.		8,460,000
<b>Financing Leases</b>		
Northland Financial, computers, matures July 2017, 2.53% interest, annual payments of \$17,689, paid by the Capital Outlay Fund.		17,202
Northland Financial, laptops, matures July 2018, 3.04% interest, annual payments of \$18,488, paid by the Capital Outlay Fund.		35,342
Marco, Inc. ,copiers, matures October 2018, 1.799% interest, monthly payments of \$699, paid by the Capital Outlay Fund.		11,037
<b>Early Retirement</b>		
Requires annual payments of not more than \$5,000 from the general fund, final payment in fiscal year 2019. (See Note 5)		10,000
Plus unamortized premiums		<u>263,981</u>
		<u>\$ 9,602,562</u>

The SD SDBF assessment consists of \$307,000 assessed to the School District. The School Board decided to pay the assessment in 4 annual installment payments from October 2017 through October 2020.

The purchase price at the commencement of the financing (capital acquisition) leases was:

Principal	\$ 143,400
Interest	7,051
	\$ 150,451

The annual debt service requirements to maturity for all debt outstanding as of June 30, 2017 are as follows:

Year Ending June 30,	G.O. Bonds Payable		Financing (Capital Acquisition Leases)		Early Retirement	SD SDBF Assessment	Total	
	Principal	Interest	Principal	Interest	Principal	Principal	Principal	Interest
2018	\$ 530,000	\$ 393,308	\$ 42,853	\$ 1,708	\$ 5,000	\$ 75,040	\$ 652,893	\$ 395,016
2019	680,000	253,603	20,728	555	5,000	76,170	781,898	254,158
2020	685,000	240,773	-	-	-	77,310	762,310	240,773
2021	700,000	227,486	-	-	-	78,480	778,480	227,486
2022	510,000	215,950	-	-	-	-	510,000	215,950
2023-2027	1,860,000	935,725	-	-	-	-	1,860,000	935,725
2027-2032	1,945,000	631,881	-	-	-	-	1,945,000	631,881
2033-2037	2,355,000	212,594	-	-	-	-	2,355,000	212,594
	\$ 9,265,000	\$ 3,111,320	\$ 63,581	\$ 2,263	\$ 10,000	\$ 307,000	\$ 9,645,581	\$ 3,113,583

Included in the Marco, Inc. lease agreement is a servicing agreement for the copiers and printers at the School District. The total monthly payment for the servicing portion of the lease is \$1,448 at the end of 2017 with a 10% increase in total payment per year and matures in October, 2018. Required minimum lease payments for this portion of the lease are as follows:

Year	Amount
2018	\$ 6,003

During the year ended June 30, 2017, the School District issued \$8,460,000 in Capital Outlay Certificates with an average interest rate of 3.23% to finance an elementary school project and to refund General Obligation Bonds (Build America Bonds), Series 2009, which had an unpaid principal of \$1,108,989 at the time of refunding, and carried an average interest rate of 5.84%. The School District refunded the debt to reduce its total debt service payments over the next 6 years by \$62,269, and to obtain an economic gain of \$63,879.

The net proceeds of the refunding issue in the amount of \$1,108,989 were deposited into an irrevocable trust with an escrow agent to provide for all future debt service requirements on the refunded issue. As a result, the refunded issue is considered to be defeased and the liability has been removed from the financial statements of the School District.



**Note 5 - Special Termination Benefits**

The School District has an early retirement policy in which the employee will receive a one-time benefit of \$20,000 payable in three different options: \$5,000 paid directly to retiree over 4 years, \$5,000 paid to a tax free investment plan for 4 years or \$20,000 moved to a trust and agency account to pay for health insurance until completely spent. The employee must meet the following criteria: the employee has served the School District for at least 15 years and is between the ages of 55 and 63 as of June 30 of the retirement year. Employees hired after July 2015 will no longer be eligible for early retirement provisions. The maximum number of recipients approved in any one year shall not exceed four, and the chronological order in which the applications are received will determine the priority of the recipients. During the 2017 fiscal year, there were no new employees approved to receive the benefit.

**Note 6 - Fair Value**

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the School has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The School District invests in mutual funds. The mutual funds are valued based on the quoted net asset value (NAV) of shares held by the School District, and are classified within Level 1.

The following table presents the assets measured at fair value on a recurring basis, except those measured at cost as identified below, at June 30, 2017:

	Total	Level 1	Level 2	Level 3
Mutual Funds	\$ 94,966	94,966	\$ -	\$ -
	\$ 94,966	\$ 94,966	\$ -	\$ -

## **Note 7 - Risk Management**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. There have been no decreases in coverage from the previous fiscal year and settled claims have not exceeded coverage in any of the three previous fiscal years. During the year ended June 30, 2017, the School District managed its risks as follows:

### **Employee Health Insurance**

The School District joined the South Dakota School District Health Benefits Fund (SD SDBF). This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local governmental entities. The School District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage provides for a \$1,500 to \$2,500 deductible per person up to \$3,000 to \$5,000 per family, 80/20% coinsurance with up to 80% of \$10,000 to \$20,000 and a lifetime maximum of \$2,000,000 per person.

The School District does not carry additional health insurance to pay claims in excess of this upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

At June 30, 2016, the South Dakota School District Health Benefits Fund had a deficit net position. During fiscal year 2017 the Fund issued a fund-wide assessment to all of the districts participating in the Fund to make up this deficit net position. The amount assessed to the School District was \$307,000, which was payable in lump sum or by payment plan with payment due by August 1, or October 1, 2017, depending on the payment method chosen. The School District decided to pay the assessment in 4 annual installments with the first payment of \$79,650 being made subsequent to year-end. At June 30, 2017, the South Dakota School District Health Benefits fund has a positive net position.

### **Liability Insurance**

The School District purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance provider. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

### **Worker's Compensation Insurance**

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provided workers' compensation insurance coverage for participating members of the pool. The objective of the fund is to formulate, develop and administer, on behalf of the member organizations, a program of worker's compensation coverage to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the fund to resolve any worker's compensation claims. The School District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the fund members. The School District may also be responsible for additional assessments in the event the pool is determined by its Board of Trustees to have inadequate reserves to satisfy current obligations or judgments.

Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$1,000,000 per individual per incident.

The School District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims from these risks have not exceeded the liability coverage during the past three years.

**Unemployment Benefits**

The School District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

The School District has assigned fund balance in the General Fund in the amount of \$32,052 for the payment of future unemployment benefits.

At June 30, 2017, no claims had been filed for unemployment benefits and no claims are anticipated for unemployment in the next fiscal year.

**Note 8 - Restricted Net Position**

The following table shows the net assets restricted for other purposes as shown on the statement of net position:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay	Law	\$ 730,201
Special Education	Law	37,734
Debt Service	Law	150,602
Pension	Law	1,033
SDRS Pension Benefits	Law	825,769
		<u>\$ 1,745,339</u>

**Note 9 - Joint Ventures**

The School District participates in the Northern High Tech Modules Consortium (Co-op), formed for the purpose of providing services to the member school districts.

The members of the Co-op and their relative percentage of participation are:

Edmunds Central School District	12.5%
Groton Area School District	12.5%
Eureka School District	12.5%
Ipswich School District	12.5%
Leola School District	12.5%
Herreid School District	12.5%
Selby Area School District	12.5%
Warner School District	12.5%

The Warner School District serves as the school of record, and the advisory board is composed of one representative from each school district, who is the Superintendent. The Board oversees adopting the budget and setting service fees at a level adequate to fund the adopted budget.

The School District retains no equity interest in the net assets, but does have a responsibility to fund deficits in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from Northern High Tech Modules Consortium.

At June 30, 2017, this joint venture had total fund equity of \$33,058 and no long-term debt.

The School District also participates in the North Central Special Education Coop, a multi-district cooperative service unit (co-op) formed for the purpose of providing special education services to the member school districts. All members participate equally, members of the co-op are as follows:

Hitchcock-Tulare School District	Doland School District
Langford Area School District	Leola School District
Frederick Area School District	Groton Area School District
Northwestern Area School District	Warner School District

The North Central Special Education Cooperative’s governing board is composed of one representative from each member school district. The Board is responsible for adopting the Co-op’s budget and setting service fees at a level adequate to fund the adopted budget.

The School District retains no equity interest in the net position of the Co-op but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation described above.

Financial statements are available by contacting the North Central Special Education Cooperative.

At June 30, 2017, the North Central Special Education Cooperative had fund equity of \$458,121 and no long-term debt.

### **Note 10 - Post-Employment Healthcare Plan**

As of July 1, 2016 current employees are no longer allowed to stay on the School District's healthcare plan at retirement. Retirees on the plan prior to June 30, 2016 are eligible to stay on the School District's healthcare plan until age 65. The OPEB liability as of June 30, 2017 for retirees already on the plan was evaluated and determined to not be material to the Statement of Net Position and, therefore, no liability is recorded.

### **Note 11 - Pension Plan**

#### **Plan Information**

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

#### **Benefits Provided**

SDRS has three different classes of employees, Class A, Class B public safety, and Class B judicial. Class A retirement benefits are determined as 1.7% prior to 2008 and 1.55% thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4% for service prior to 2008 and 2.0% thereafter of employee final average compensation. Class B judicial benefits are determined as 3.73% for service prior to 2008 and 3.33% thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1 is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more — 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
  - 90.0% to 99.9% funded — 2.1% minimum and 2.8% maximum COLA
  - 80.0% to 90.0% funded — 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% — 2.1% COLA

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

**Contributions**

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ending June 30, 2017, 2016 and 2015 were \$207,498, \$195,222 and \$186,943 respectively, equal to the required contributions each year.

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions**

At June 30, 2016, SDRS is 96.9% funded and accordingly has a net pension liability. The proportionate shares of the components of the net pension liability (asset) of SDRS, for the School District as of the measurement period ending June 30, 2016 and reported by the school district as of June 30, 2017 are as follows:

Proportionate share of total pension liability (asset)	\$ 18,567,556
Less proportionate share of net position restricted for pension benefits	<u>17,989,564</u>
Proportionate share of net pension liability (asset)	<u><u>\$ 577,992</u></u>

At June 30, 2017, the School District reported a liability of \$577,992 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2016 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the School District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2016, the School District's proportion was 0.17110980% which is a decrease of 0.0004526% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense of \$404,678. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 201,212	\$ -
Changes in assumption	346,190	-
Net difference between projected and actual earnings on pension plan investments	642,923	-
Changes in proportion and difference between School District contributions and proportionate share of contributions	7,616	1,678
School District contributions subsequent to the measurement date	<u>207,498</u>	-
	<u><u>\$ 1,405,439</u></u>	<u><u>\$ 1,678</u></u>

There is \$207,498 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	Amount
2018	\$ 323,813
2019	196,911
2020	407,976
2021	267,563
	\$ 1,196,263

### Actuarial Assumptions

The total pension liability (asset) in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	5.83% at entry to 3.87% after 30 years of service
Investment rate of return	7.25% through 2017 and 7.50% thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
	100.0%	

**Discount Rate**

The discount rate used to measure the total pension liability (asset) was 7.25% through 2017 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

**Sensitivity of Asset to Changes in the Discount Rate**

The following presents the School District's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25% through 2017 and 7.50% thereafter, as well as what the School's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net pension liability (asset)	\$ 3,234,436	\$ 577,992	\$ (1,588,623)

**Pension Plan Fiduciary Net Position**

Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.



**Note 12 - Change in Reporting Entity**

As of June 30, 2017 it was determined that the North Central Special Education Cooperative was no longer a blended component unit of the School District and accordingly will no longer be reported in the School District's financial statements. The beginning net position of the governmental activities has been restated for this change, as noted below:

	Governmental Activities
Net position at June 30, 2016, as previously stated	\$ 7,619,334
Change in reporting entity	(426,112)
Net position at July 1, 2016, as restated	\$ 7,193,222

The special revenue fund previously reported as a major fund has been removed from the governmental funds in 2017.

**Note 13 - Interfund Transactions**

During 2017, the School District made the following transfers:

- The Capital Outlay Fund transferred \$250,000 to the General Fund as allowed by SDCL 13-16-6 to cover certain operating expenses.
- The Capital Outlay Fund transferred \$7,500,775 to the Elementary School Project Fund from money raised from general obligation certificates to pay for the elementary school remodel project.
- The Pension Fund transferred \$2,942 to the Food Service Fund and \$1,486 to the Other Enterprise Fund to help cover costs on pension expenses.



Required Supplementary Information  
June 30, 2017

## Groton Area School District 06-6

Groton Area School District 06-6  
 Schedule of Funding Progress  
 Year Ended June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Unit Credit (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ( (b - a) / c )
6/30/2017	\$ -	\$ -	\$ -	0.00%	\$ -	0.00%
6/30/2016	-	-	-	0.00%	-	0.00%
6/30/2015	-	419,071	419,071	0.00%	3,671,890	11.41%

Groton Area School District 06-6  
 Budgetary Comparison Schedule – Budgetary Basis – General Fund  
 Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 3,077,053	\$ 3,077,053	\$ 3,089,755	\$ 12,702
1120 Prior year's ad valorem taxes	9,000	9,000	10,566	1,566
1140 Gross receipts taxes	565,000	565,000	567,853	2,853
1190 Penalties and interest on taxes	5,400	5,400	6,249	849
1300 Tuition and fees:				
1360 Regular day school transportation fees	1,050	1,050	945	(105)
1500 Earnings on investments and deposits	4,000	4,000	12,310	8,310
1700 Cocurricular activities:				
1710 Admissions	45,300	45,300	48,511	3,211
1740 Rentals	1,800	1,800	2,521	721
1790 Other pupil activity income	76,100	76,100	86,499	10,399
1900 Other revenue from local sources:				
1910 Rentals	2,500	2,500	1,950	(550)
1920 Contributions and donations	9,000	9,000	3,895	(5,105)
1970 Charges for services	5,000	5,000	6,512	1,512
1990 Other	10,000	10,000	12,296	2,296
2000 Revenue from intermediate sources				
2100 County sources:				
2110 County apportionment	45,000	45,000	44,271	(729)
2200 Revenue in lieu of taxes	100	100	465	365
3000 Revenue from State sources				
3100 Grants-in-aid:				
3110 Unrestricted grants-in-aid	348,535	348,535	370,066	21,531
3900 Other State revenue	5,500	5,500	6,384	884
4000 Revenue from Federal sources:				
4100 Grants-in-aid:				
4130 Unrestricted grants-in-aid received from Federal government through an intermediate source	5,000	5,000	5,122	122
4140 Restricted grants-in-aid received directly from Federal government	19,692	19,692	19,692	-
4150-4199 Restricted grants-in-aid received from Federal government through the State	98,318	98,318	98,172	(146)
4900 Other Federal revenue	900	900	1,000	100
Total revenues	<u>4,334,248</u>	<u>4,334,248</u>	<u>4,395,034</u>	<u>60,786</u>
<b>Expenditures</b>				
1000 Instruction				
1100 Regular programs:				
1110 Elementary	1,104,151	1,104,151	1,081,475	22,676
1111 Middle school/junior high	437,604	437,604	429,755	7,849
1130 High school	943,958	943,958	881,465	62,493
1140 Preschool services	82,007	82,007	80,115	1,892
1190 Other regular programs	2,000	2,000	-	2,000

Groton Area School District 06-6  
 Budgetary Comparison Schedule – Budgetary Basis – General Fund  
 Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
1200 Special programs:				
1210 Gifted and talented	5,576	5,576	3,555	2,021
1230 At-risk youth	63,854	63,854	62,704	1,150
1250 Culturally different	29,193	29,193	27,989	1,204
1270 Educationally deprived	60,046	60,046	58,790	1,256
2000 Support services				
2100 Pupils:				
2120 Guidance	129,696	129,696	125,938	3,758
2130 Health	39,713	39,713	38,626	1,087
2200 Support services - instructional staff:				
2210 Improvement of instruction	20,718	20,718	16,797	3,921
2220 Educational media	173,062	173,062	165,080	7,982
2300 Support services - general administration:				
2310 Board of education	74,747	74,747	68,429	6,318
2320 Executive administration	126,682	128,682	128,506	176
2400 Support services - school administration:				
2410 Office of the principal	262,482	264,482	264,052	430
2490 Other	250	250	452	(202)
2500 Support services - business:				
2520 Fiscal services	179,084	179,084	175,496	3,588
2530 Facilities acquisition and construction	25,000	31,000	31,000	-
2540 Operation and maintenance of plant	685,627	685,627	683,325	2,302
2550 Pupil transportation	305,863	305,863	310,293	(4,430)
4000 Nonprogrammed charges				
4400 Payments to State - unemployment	4,000	4,000	-	4,000
4500 Early retirement payments	5,383	5,383	5,383	-
6000 Cocurricular activities				
6900 Combined activities	209,427	212,927	203,929	8,998
7000 Contingencies	50,000	36,500	-	36,500
Total expenditures	<u>5,020,123</u>	<u>5,020,123</u>	<u>4,843,154</u>	<u>176,969</u>
Excess of Revenue under Expenditures	<u>(685,875)</u>	<u>(685,875)</u>	<u>(448,120)</u>	<u>237,755</u>
Other Financing Sources				
5130 Sale of surplus property	50	50	344	294
5510 Transfers in	100,000	250,000	250,000	-
Total other financing sources	<u>100,050</u>	<u>250,050</u>	<u>250,344</u>	<u>294</u>
Net Change in Fund Balances	(585,825)	(435,825)	(197,776)	238,049
Fund Balance - Beginning	<u>2,087,000</u>	<u>2,087,000</u>	<u>2,087,000</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 1,501,175</u>	<u>\$ 1,651,175</u>	<u>\$ 1,889,224</u>	<u>\$ 238,049</u>

Groton Area School District 06-6  
 Budgetary Comparison Schedule – Budgetary Basis – Capital Outlay Fund  
 Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 1,004,600	\$ 1,004,600	\$ 1,001,259	\$ (3,341)
1120 Prior year's ad valorem taxes	2,800	2,800	2,947	147
1190 Penalties and interest on taxes	1,500	1,500	1,659	159
1900 Other revenue from local sources:				
1920 Contributions and donations	-	-	1,600	1,600
2000 Revenue from intermediate sources				
2200 Revenue in lieu of taxes	50	50	-	(50)
4000 Revenue from Federal sources				
4900 Other Federal revenue	21,600	21,600	21,866	266
	<u>1,030,550</u>	<u>1,030,550</u>	<u>1,029,331</u>	<u>(1,219)</u>
Total revenues				
<b>Expenditures</b>				
1000 Instruction				
1100 Regular programs:				
1110 Elementary	41,770	41,770	82,781	(41,011)
1120 Junior High/Middle School	21,575	21,575	4,150	17,425
1130 High school	43,375	43,375	60,122	(16,747)
1140 Preschool services	75	75	47	28
1190 Other regular programs	4,000	4,000	-	4,000
1200 Special programs:				
1210 Gifted and Talented	100	100	74	26
1220 Programs for special education	5,375	5,375	4,704	671
1250 Culturally different	550	550	113	437
1270 Educationally deprived	700	700	643	57
2000 Support services				
2100 Pupils:				
2120 Guidance	150	150	134	16
2130 Health	550	550	511	39
2200 Support services - instructional staff:				
2220 Educational media	81,160	81,160	94,324	(13,164)
2300 Support services - general administration:				
2310 Board of education	2,675	2,675	2,299	376
2400 Support services - school administration:				
2410 Office of the principal	1,000	1,000	627	373
2500 Support services - business:				
2530 Facilities acquisition and construction	324,050	324,050	184,803	139,247
2540 Operation and maintenance of plant	39,600	39,600	35,923	3,677
2550 Pupil transportation	115,775	117,075	117,037	38
5000 Debt services	307,478	307,478	318,630	(11,152)
6000 Cocurricular activities				
6900 Combined activities	38,485	38,485	25,261	13,224
	<u>1,028,443</u>	<u>1,029,743</u>	<u>932,183</u>	<u>97,560</u>
Total expenditures				

Groton Area School District 06-6  
 Budgetary Comparison Schedule – Budgetary Basis – Capital Outlay Fund  
 Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Excess of Revenue under Expenditures	2,107	807	97,148	96,341
Other Financing Sources (Uses)				
8110 Transfers out	(100,000)	(7,750,000)	(7,750,775)	(775)
5120 General long-term debt issued	-	8,512,740	8,512,740	-
8120 Payment to refunded debt escrow agency	-	(1,108,989)	(1,108,989)	-
8150 Premium on bonds issued	-	271,324	271,324	-
Total other financing sources	(100,000)	(74,925)	(75,700)	(775)
Net Change in Fund Balances	(97,893)	(74,118)	21,448	95,566
Fund Balance - Beginning	703,313	703,313	703,313	-
Fund Balance - Ending	\$ 605,420	\$ 629,195	\$ 724,761	\$ 95,566

Groton Area School District 06-6  
 Budgetary Comparison Schedule – Budgetary Basis – Special Education Fund  
 Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 742,500	\$ 742,500	\$ 740,926	\$ (1,574)
1120 Prior year's ad valorem taxes	1,650	1,650	1,778	128
1190 Penalties and interest on taxes	850	850	1,088	238
1900 Other revenue from local sources:				
1970 Charges for services	9,100	9,100	13,533	4,433
2000 Revenue from intermediate sources				
2200 Revenue in lieu of taxes	50	50	-	(50)
3000 Revenue from State sources				
3900 Other State revenue	100	100	138	38
	<u>754,250</u>	<u>754,250</u>	<u>757,463</u>	<u>3,213</u>
<b>Expenditures</b>				
1000 Instruction				
1200 Special programs:				
1220 Programs for special education	691,002	691,002	640,847	50,155
2000 Support services				
2100 Pupils:				
2130 Health	5,000	5,000	-	5,000
2140 Psychological	16,573	16,573	16,573	-
2150 Speech pathology	41,929	41,929	41,808	121
2170 Student therapy services	91,000	91,000	91,924	(924)
2300 Support services - general administration:				
2310 Board of education	500	500	-	500
2700 Support services - special education:				
2710 Administrative costs	14,721	16,146	14,158	1,988
2730 Transportation costs	7,903	8,228	7,216	1,012
2740 Other health impairments	6,157	7,557	8,062	(505)
2750 Other special education costs	4,548	4,873	3,961	912
	<u>879,333</u>	<u>882,808</u>	<u>824,549</u>	<u>58,259</u>
Net Change in Fund Balances	(125,083)	(128,558)	(67,086)	61,472
Fund Balance - Beginning	<u>101,500</u>	<u>101,500</u>	<u>101,500</u>	<u>-</u>
Fund Balance - Ending	<u>\$ (23,583)</u>	<u>\$ (27,058)</u>	<u>\$ 34,414</u>	<u>\$ 61,472</u>



Groton Area School District 06-6  
 Budgetary Comparison Schedule – Budgetary Basis – Pension Fund  
 Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 95,300	\$ 95,300	\$ 95,158	\$ (142)
1120 Prior year's ad valorem taxes	200	200	556	356
1190 Penalties and interest on taxes	100	100	297	197
Total revenues	<u>95,600</u>	<u>95,600</u>	<u>96,011</u>	<u>411</u>
<b>Expenditures</b>				
1000 Instruction				
1100 Regular programs:				
1110 Elementary	43,000	43,000	40,663	2,337
1111 Middle school/junior high	17,000	17,000	16,076	924
1130 High school	35,000	35,000	33,098	1,902
2000 Support services				
2100 Pupils:				
2120 Guidance	5,000	5,000	-	5,000
2200 Support services - instructional staff:				
2220 Educational media	2,000	2,000	-	2,000
2300 Support services - general administration:				
2320 Executive administration	5,000	5,000	-	5,000
2400 Support services - school administration:				
2410 Office of the principal	10,000	10,000	-	10,000
2500 Support services - business:				
2520 Fiscal services	6,000	6,000	-	6,000
2540 Operation and maintenance of plant	10,000	10,000	-	10,000
2550 Pupil transportation	5,000	5,000	-	5,000
Total expenditures	<u>138,000</u>	<u>138,000</u>	<u>89,837</u>	<u>48,163</u>
Excess of Revenue under Expenditures	<u>(42,400)</u>	<u>(42,400)</u>	<u>6,174</u>	<u>48,574</u>
<b>Other Financing Sources</b>				
8110 Transfers out	-	-	(4,428)	(4,428)
Total other financing sources	<u>-</u>	<u>-</u>	<u>(4,428)</u>	<u>(4,428)</u>
Net Change in Fund Balances	(42,400)	(42,400)	1,746	44,146
Fund Balance - Beginning	<u>(1,746)</u>	<u>(1,746)</u>	<u>(1,746)</u>	<u>-</u>
Fund Balance - Ending	<u>\$ (44,146)</u>	<u>\$ (44,146)</u>	<u>\$ -</u>	<u>\$ 44,146</u>

**Note 1 - Basis of Presentation**

The budgetary comparison schedules have been prepared on the modified accrual basis of accounting. The budgetary comparison schedule presents expenditures for capital outlay purposes within each function while the governmental funds statement of revenues, expenditures, and changes in fund balance presents capital outlay expenditures as a separate function.

**Note 2 - Budgetary Legal Requirements**

The School District followed these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first regular School Board meeting in May of each year, the School Board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the School Board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the School Board, the operating budget is legally binding at the fund level and actual expenditures of each fund cannot exceed the amounts budgeted for that fund, except as indicated in Number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5% of the total School District budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board.
10. Formal budgetary integration is employed as a management control device during the year for the general fund, capital project funds, and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Generally accepted accounting principles prescribe that budgetary information be presented for the General Fund and special revenue funds of the School District only.

Groton Area School District 06-6  
 Schedule of Employer's Share of Net Pension Liability (Asset)  
 Year Ended June 30, 2017

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Employer's Percentage of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</u>	<u>Employer's Covered-Employee Payroll (b)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)</u>
SDRS	6/30/2016	0.1711098%	\$ 577,992	\$ 3,253,709	17.8%	96.89%
SDRS	6/30/2015	0.1706572%	(723,806)	3,115,729	-23.2%	104.1%
SDRS	6/30/2014	0.1739782%	(1,253,441)	3,042,404	-41.2%	107.3%

\*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full ten-year trend is compiled, the School District will present information for those years for which information is available.

Groton Area School District 06-6  
Schedule of Employer's Contributions  
Year Ended June 30, 2017

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions in Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered- Employee Payroll (d)</u>	<u>Contributions as a Percentage of Covered- Employee Payroll (b/d)</u>
SDRS	6/30/2017	\$ 207,498	\$ 207,498	-	\$ 3,458,565	6.0%
SDRS	6/30/2016	195,222	195,222	-	3,253,709	6.0%
SDRS	6/30/2015	186,943	186,943	-	3,115,729	6.0%

\*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full ten-year trend is compiled, the School District will present information for those years for which information is available.

**Notes to Required Supplementary Information**

There are no factors that affect trends in the amounts reported, such as change of benefit terms and assumptions. With only one year reported in the RSI, there is no additional information to include in notes. Details, if necessary, can be obtained from the SDRS audited financial statements.



**Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

The School Board  
Groton Area School District 06-6  
Groton, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Groton Area School District 06-6 (the School District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District’s basic financial statements, and have issued our report thereon dated January 22, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the School District’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings, we identified a certain deficiency in internal control that we consider to be a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings as item 2017-A to be a material weakness.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**School District's Response to Findings**

Groton Area School District 06-6's response to the finding identified in our audit is described in the accompanying schedule of findings. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is matter of public record and its distribution is not limited.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name of the firm.

Aberdeen, South Dakota  
January 22, 2018

## **Current Audit Findings and Recommendations**

### **Finding 2017-A Preparation of Financial Statements and Footnotes, and Material Proposed Adjustments to the Financial Statements**

*Criteria:* The School District's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with generally accepted accounting principles.

*Condition:* Groton Area School District 06-6 requested the external auditors to assist in the preparation of the financial statements and related footnotes for the year ended June 30, 2017. As part of the financial statement preparation process, at times we propose material audit adjustments that are not identified as a result of the School District's existing internal controls and, therefore, could result in a misstatement of the School District's financial statements.

*Cause:* The limited size of the School District's staff and resources cause the inability to prepare the financial statements and footnotes and could cause the need for auditors to at times propose material journal entries.

*Effect:* This condition may affect the School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

*Recommendation:* This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure generally accepted accounting principles have been followed for each fund type, especially for transaction types infrequent in occurrence.

*Views of Responsible Officials:* Management agrees with the finding.