

**PARKSTON SCHOOL DISTRICT NO. 33-3
OF HUTCHINSON COUNTY**

AUDIT REPORT

FISCAL YEAR JULY 1, 2018, TO JUNE 30, 2019

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

PARKSTON SCHOOL DISTRICT NO. 33-3
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2019

BOARD MEMBERS:

Mark Heisinger – President
Jon Proehl – Vice-President
Jim Mahoney
Barb McKean
Tom Sommer

SUPERINTENDENT:

Shayne McIntosh

BUSINESS MANAGER:

Craig Bruening

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

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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

School Board
Parkston School District No. 33-3
Hutchinson County, 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 the Parkston School District No. 33-3, South Dakota (School District), as of June 30, 2019 and for the year then ended, 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 December 20, 2019.

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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as item 2019-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of 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

The School District's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit 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 School District'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 a matter of public record and its distribution is not limited.



Schoenfish & Co., Inc.
Certified Public Accountants
December 20, 2019

SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR OTHER AUDIT FINDINGS:

Internal Control Over Revenues:

Finding Number 2018-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. This comment has not been corrected and is restated as current audit finding number 2019-001.

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SCHEDULE OF CURRENT AUDIT FINDINGSCURRENT AUDIT FINDINGS:CURRENT OTHER AUDIT FINDINGS:Internal Control – Related Findings – Material Weakness:Finding Number 2019-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This has been a continuing audit comment since fiscal year 2000.

Criteria:

Proper segregation of duties results in increased reliability of reported financial data decreased potential for the loss of public assets.

Condition:

A limited number of employees process all revenue transactions from beginning to end. They also receive money, issue receipts, record receipts, post receipts in the accounting records, prepare bank deposits, reconcile bank statements, and prepare financial statements.

Effect:

As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

Recommendation:

1. We recommend that the Parkston School District officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever, and wherever, possible and practical.

Management's Response:

The Parkston School District Board President, Barb McKean, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Parkston School District, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are attempting to develop policies and provide compensating controls.

CLOSING CONFERENCE

The audit was discussed with Board Member Tom Sommer, Superintendent Shayne McIntosh, and Business Manager Craig Bruening on January 9, 2020.

Schoenfish & Co., Inc.

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INDEPENDENT AUDITOR'S REPORT

School Board
Parkston School District No. 33-3
Hutchinson County, 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 the Parkston School District No. 33-3, South Dakota, (School District) as of June 30, 2019 and for the year then ended, 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

The School District's 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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 of 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 School District'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 School District'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.

Unmodified 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 Parkston School District No. 33-3 as of June 30, 2019, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules, the Schedule of the School District's Proportionate Share of the Net Pension Liability (Asset), and the Schedule of the School District Contributions on pages 40 through 45, 47 and 48, respectively, 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, 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.

The School District has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require 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 this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2019 on our consideration of the School District's internal control over financial reporting and 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 the 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.

Schoenfish & Co., Inc.

Schoenfish & Co., Inc.
Certified Public Accountants
December 20, 2019

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
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PARKSTON SCHOOL DISTRICT NO. 33-3
STATEMENT OF NET POSITION
As of June 30, 2019

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS:			
Cash and Cash Equivalents	2,433,101.17	135,978.47	2,569,079.64
Taxes Receivable	1,266,280.51		1,266,280.51
Other Assets	158,210.18	8,203.79	166,413.97
Inventories		20,083.17	20,083.17
Restricted Assets:			
Cash & Cash Equivalents	198,000.00		198,000.00
Net Pension Asset	3,446.06		3,446.06
Capital Assets:			
Land	104,410.34		104,410.34
Other Capital Assets, Net of Depreciation	7,767,540.31	18,738.01	7,786,278.32
TOTAL ASSETS	11,930,988.57	183,003.44	12,113,992.01
DEFERRED OUTFLOWS OF RESOURCES:			
Pension Related Deferred Outflows	1,202,635.79		1,202,635.79
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,202,635.79	0.00	1,202,635.79
LIABILITIES :			
Accounts Payable	10,257.23		10,257.23
Other Current Liabilities	484,995.71	9,181.60	494,177.31
Noncurrent Liabilities:			
Due in More than One Year	924,000.00		924,000.00
TOTAL LIABILITIES	1,419,252.94	9,181.60	1,428,434.54
DEFERRED INFLOWS OF RESOURCES:			
Taxes Levied for a Future Period	1,232,015.94		1,232,015.94
Pension Related Deferred Inflows	319,738.15		319,738.15
TOTAL DEFERRED INFLOWS OF RESOURCES	1,551,754.09	0.00	1,551,754.09
NET POSITION:			
Net Investment in Capital Assets	6,947,950.65	18,738.01	6,966,688.66
Restricted for:			
Capital Outlay Purposes	555,175.36		555,175.36
Special Education Purposes	245,967.25		245,967.25
Pension Fund Purposes	72,886.18		72,886.18
Debt Service Purposes	198,000.00		198,000.00
SDRS Pension Purposes	886,343.70		886,343.70
Unrestricted	1,256,294.19	155,083.83	1,411,378.02
TOTAL NET POSITION	10,162,617.33	173,821.84	10,336,439.17

The notes to the financial statements are an integral part of this statement.

PARKSTON SCHOOL DISTRICT NO. 33-3
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
Instruction	3,599,500.88	285,574.81	366,844.39		(2,947,081.68)		(2,947,081.68)
Support Services	1,707,291.66	13,016.72			(1,694,274.94)		(1,694,274.94)
Nonprogrammed Charges	47,384.35				(47,384.35)		(47,384.35)
Cocurricular Activities	310,667.62	51,259.22			(259,408.40)		(259,408.40)
Total Governmental Activities	5,664,844.51	349,850.75	366,844.39	0.00	(4,948,149.37)		(4,948,149.37)
Business-type Activities:							
Food Service	241,478.47	179,857.58	109,167.57			47,546.68	47,546.68
Preschool	27,925.74	20,827.25	5,850.00			(1,248.49)	(1,248.49)
Driver's Education	4,644.28	7,400.00				2,755.72	2,755.72
Total Business-Type Activities	274,048.49	208,084.83	115,017.57	0.00		49,053.91	49,053.91
Total Primary Government	5,938,893.00	557,935.58	481,861.96	0.00	(4,948,149.37)	49,053.91	(4,899,095.46)
General Revenues:							
Taxes:							
Property Taxes					2,595,762.63		2,595,762.63
Utility Taxes					154,521.63		154,521.63
Revenue from State Sources:							
State Aid					2,123,635.97		2,123,635.97
Unrestricted Investment Earnings					18,552.55	623.18	19,175.73
Other General Revenues					40,225.22		40,225.22
Transfers					95.19	(95.19)	0.00
Total General Revenues and Transfers					4,932,793.19	527.99	4,933,321.18
Change in Net Position					(15,356.18)	49,581.90	34,225.72
Net Position - Beginning					10,177,973.51	124,239.94	10,302,213.45
NET POSITION - ENDING					10,162,617.33	173,821.84	10,336,439.17

The notes to the financial statements are an integral part of this financial statement.

**PARKSTON SCHOOL DISTRICT NO. 33-3
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2019**

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	QZAB Debt Service Fund	Total Governmental Funds
ASSETS:						
Cash and Cash Equivalents	1,500,151.74	545,582.53	309,919.53	72,447.37		2,428,101.17
Advanced Payments	5,000.00					5,000.00
Taxes Receivable--Current	505,755.32	397,736.02	328,524.60			1,232,015.94
Taxes Receivable--Delinquent	16,829.62	9,769.81	7,226.33	438.81		34,264.57
Accounts Receivable, Net	1,228.32					1,228.32
Due from Other Government	156,981.86					156,981.86
Restricted Cash and Cash Equivalents					198,000.00	198,000.00
TOTAL ASSETS	2,185,946.86	953,088.36	645,670.46	72,886.18	198,000.00	4,055,591.86
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:						
Liabilities:						
Accounts Payable	10,080.25	176.98				10,257.23
Contracts Payable	300,463.12		41,549.27			342,012.39
Payroll Deductions and Withholdings and Employer Matching Payable	113,353.98		29,629.34			142,983.32
Total Liabilities	423,897.35	176.98	71,178.61	0.00	0.00	495,252.94
Deferred Inflows of Resources:						
Unavailable Revenue--Property Taxes	16,829.62	9,769.81	7,226.33	438.81		34,264.57
Taxes Levied for Future Period	505,755.32	397,736.02	328,524.60			1,232,015.94
Total Deferred Inflows of Resources	522,584.94	407,505.83	335,750.93	438.81	0.00	1,266,280.51
Fund Balances:						
Restricted:						
Capital Outlay		545,405.55				545,405.55
Special Education			238,740.92			238,740.92
Pension				72,447.37		72,447.37
Debt Service					198,000.00	198,000.00
Assigned for Unemployment	14,581.07					14,581.07
Assigned for Next Year's Budget	318,534.00					318,534.00
Unassigned	906,349.50					906,349.50
Total Fund Balances	1,239,464.57	545,405.55	238,740.92	72,447.37	198,000.00	2,294,058.41
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	2,185,946.86	953,088.36	645,670.46	72,886.18	198,000.00	4,055,591.86

The notes to the financial statements are an integral part of this statement.

PARKSTON SCHOOL DISTRICT NO. 33-3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2019

Total Fund Balances - Governmental Funds	<u>2,294,058.41</u>
Amounts reported for governmental activities in the statement of net position are different because:	
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	<u>3,446.06</u>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>7,871,950.65</u>
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.	<u>1,202,635.79</u>
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(924,000.00)</u>
Assets, such as taxes receivable that are not available to pay for current period expenditures, are deferred in the funds.	<u>34,264.57</u>
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.	<u>(319,738.15)</u>
Net Position - Governmental Activities	<u><u>10,162,617.33</u></u>

The notes to the financial statements are an integral part of this statement.

PARKSTON SCHOOL DISTRICT NO. 33-3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	QZAB Debt Service Fund	Total Governmental Funds
Revenues:						
Revenue from Local Sources:						
Taxes:						
Ad Valorem Taxes	1,063,988.78	835,065.14	671,947.75			2,571,001.67
Prior Years' Ad Valorem Taxes	3,194.43	1,626.85	1,281.17	30.15		6,132.60
Utility Taxes	154,521.63					154,521.63
Penalties and Interest on Taxes	3,774.40	1,285.40	1,000.11	8.55		6,068.46
Tuition and Fees:						
Regular Day School Tuition	68,357.46		10,209.60			78,567.06
Earnings on Investments and Deposits	9,913.26	6,093.85	830.69	1,714.75		18,552.55
Cocurricular Activities:						
Admissions	48,299.22					48,299.22
Rentals	105.00					105.00
Other Student Activity Income	2,855.00					2,855.00
Other Revenue from Local Sources:						
Rentals	10,320.00					10,320.00
Contributions and Donations	10,673.65	712.50				11,386.15
Charges for Services	5,301.63		7,715.09			13,016.72
Other	8,970.83	6,740.00				15,710.83
Revenue from Intermediate Sources:						
County Sources:						
County Apportionment	11,956.63					11,956.63
Revenue in Lieu of Taxes	2,237.76					2,237.76
Revenue from State Sources:						
Grants-in-Aid:						
Unrestricted Grants-in-Aid	2,123,635.97					2,123,635.97
Restricted Grants-in-Aid	3,986.04					3,986.04
Tuition:						
Special Education			2,047.20			2,047.20
Regular	204,960.55					204,960.55
Revenue from Federal Sources:						
Grants-in-Aid:						
Restricted Grants-in-Aid Received						
Directly from Federal Government	24,252.00					24,252.00
Restricted Grants-in-Aid Received from						
Federal Government Through the State	203,115.00		124,105.20			327,220.20
Total Revenue	3,964,419.24	851,523.74	819,136.81	1,753.45	0.00	5,636,833.24

The notes to the financial statements are an integral part of this statement.

PARKSTON SCHOOL DISTRICT NO. 33-3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	QZAB Debt Service Fund	Total Governmental Funds
Expenditures:						
Instruction:						
Regular Programs:						
Elementary	1,332,387.93	123,316.68				1,455,704.61
Middle/Junior High	200,933.11					200,933.11
High School	791,160.28	24,804.20				815,964.48
Preschool Services	29,777.35					29,777.35
Special Programs:						
Programs for Special Education			643,737.35			643,737.35
Educationally Deprived	159,286.08					159,286.08
Support Services:						
Students:						
Guidance	100,120.58					100,120.58
Health	3,208.76					3,208.76
Psychological			9,230.00			9,230.00
Speech Pathology			66,461.20			66,461.20
Student Therapy Services			34,790.00			34,790.00
Instructional Staff:						
Improvement of Instruction	16,784.24					16,784.24
Educational Media	104,467.77	24,193.06				128,660.83
General Administration:						
Board of Education	43,468.59					43,468.59
Executive Administration	143,899.09	585.00				144,484.09
School Administration:						
Office of the Principal	245,147.00	3,380.78				248,527.78
Other	561.57					561.57
Business:						
Fiscal Services	116,709.46	6,311.98				123,021.44
Facilities Acquisition and Construction		37,897.66				37,897.66
Operation and Maintenance of Plant	394,867.52	2,319.82				397,187.34
Student Transportation	217,423.67					217,423.67
Central:						
Staff	648.75					648.75
Special Education:						
Administrative Costs			48,460.24			48,460.24
Other Special Education Costs			3,522.78			3,522.78

The notes to the financial statements are an integral part of this statement.

PARKSTON SCHOOL DISTRICT NO. 33-3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	QZAB Debt Service Fund	Total Governmental Funds
Nonprogrammed Charges:						
Payments to State - Unemployment	616.15					616.15
Early Retirement Payments				46,768.20		46,768.20
Cocurricular Activities:						
Male Activities	63,089.53					63,089.53
Female Activities	47,927.12					47,927.12
Transportation	38,597.88					38,597.88
Combined Activities	107,506.16	13,354.52				120,860.68
Capital Outlay		1,293,378.50				1,293,378.50
Total Expenditures	4,158,588.59	1,529,542.20	806,201.57	46,768.20	0.00	6,541,100.56
Excess of Revenue Over (Under) Expenditures	(194,169.35)	(678,018.46)	12,935.24	(45,014.75)	0.00	(904,267.32)
Other Financing Sources (Uses):						
Transfers In	283,740.50				132,000.00	415,740.50
Transfers Out	(343,038.03)		(877.92)	(71,729.36)		(415,645.31)
Total Other Financing Sources (Uses)	283,740.50		(877.92)	(71,729.36)	132,000.00	95.19
Net Change in Fund Balances	89,571.15	(1,021,056.49)	12,057.32	(116,744.11)	132,000.00	(904,172.13)
Fund Balance - Beginning	1,149,893.42	1,566,462.04	226,683.60	189,191.48	66,000.00	3,198,230.54
FUND BALANCE - ENDING	1,239,464.57	545,405.55	238,740.92	72,447.37	198,000.00	2,294,058.41

The notes to the financial statements are an integral part of this statement.

PARKSTON SCHOOL DISTRICT NO. 33-3
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances to the Government-Wide Statement of Activities
For the Year Ended June 30, 2019

Net Change in Fund Balances - Total Governmental Funds	<u>(904,172.13)</u>
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 outlays exceeded depreciation in the current period.	<u>1,142,391.38</u>
In the statement of activities, the loss on disposal of assets is reported, whereas in the governmental funds, the proceeds from the disposal of capital assets are reflected, regardless of whether a gain or loss is realized.	<u>(3,122.51)</u>
In both the government-wide and fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property 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".	<u>12,559.90</u>
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (Pension Expense)	<u>4,164.08</u>
Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.	<u>(267,176.90)</u>
Change in Net Position of Governmental Activities	<u><u>(15,356.18)</u></u>

The notes to the financial statements are an integral part of this statement.

PARKSTON SCHOOL DISTRICT NO. 33-3
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
As of June 30, 2019

	Enterprise Funds		Totals
	Food Service Fund	Driver's Education/ Preschool Fund	
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	117,649.74	18,328.73	135,978.47
Accounts Receivable, Net	8,203.79		8,203.79
Inventories - Stores for Resale	3,889.34		3,889.34
Inventory of Donated Food	16,193.83		16,193.83
Total Current Assets	145,936.70	18,328.73	164,265.43
Noncurrent Assets:			
Capital Assets:			
Machinery and Equipment--Local Funds	208,093.72		208,093.72
Less: Accumulated Depreciation	(189,355.71)		(189,355.71)
Total Noncurrent Assets	18,738.01	0.00	18,738.01
TOTAL ASSETS	164,674.71	18,328.73	183,003.44
LIABILITIES:			
Current Liabilities:			
Contracts Payable	95.50	3,870.41	3,965.91
Payroll Deductions and Withholdings and Employer Matching Payable	4,561.14	654.55	5,215.69
TOTAL LIABILITIES	4,656.64	4,524.96	9,181.60
NET POSITION:			
Net Investment in Capital Assets	18,738.01		18,738.01
Unrestricted Net Position	141,280.06	13,803.77	155,083.83
TOTAL NET POSITION	160,018.07	13,803.77	173,821.84

The notes to the financial statements are an integral part of this statement.

PARKSTON SCHOOL DISTRICT NO. 33-3
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2019

	Enterprise Funds		Totals
	Food Service Fund	Driver's Education/Preschool Fund	
Operating Revenue:			
Food Sales:			
Students	177,752.81		177,752.81
Adults	833.14		833.14
Other Charges for Goods and Services	1,271.63		1,271.63
Preschool		20,827.25	20,827.25
Driver's Education		7,400.00	7,400.00
Total Operating Revenue	179,857.58	28,227.25	208,084.83
Operating Expenses:			
Food Service:			
Salaries	86,446.63		86,446.63
Employee Benefits	42,571.29		42,571.29
Purchased Services	8,096.14		8,096.14
Supplies	111.15		111.15
Cost of Sales - Purchased	75,660.75		75,660.75
Cost of Sales - Donated	26,905.17		26,905.17
Depreciation	1,687.34		1,687.34
Preschool Activities		27,925.74	27,925.74
Driver's Education Activities		4,644.28	4,644.28
Total Operating Expenses	241,478.47	32,570.02	274,048.49
Operating Income (Loss)	(61,620.89)	(4,342.77)	(65,963.66)
Nonoperating Revenue:			
Investment Earnings	525.50	97.68	623.18
State Grants	4,804.78		4,804.78
Federal Grants	79,126.74	5,850.00	84,976.74
Donated Food	25,236.05		25,236.05
Total Nonoperating Revenue (Expense)	109,693.07	5,947.68	115,640.75
Income (Loss) Before Transfers	48,072.18	1,604.91	49,677.09
Transfers Out		(95.19)	(95.19)
Change in Net Position	48,072.18	1,509.72	49,581.90
Net Position - Beginning	111,945.89	12,294.05	124,239.94
NET POSITION - ENDING	160,018.07	13,803.77	173,821.84

The notes to the financial statements are an integral part of this statement.

PARKSTON SCHOOL DISTRICT 33-3
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2019

	Enterprise Fund		
	Food Service Fund	Driver's Education/ Preschool Fund	Totals
Cash Flows from Operating Activities:			
Cash Receipts from Customers	179,857.58	28,227.25	208,084.83
Cash Payments to Employees for Services	(131,493.83)	(31,759.68)	(163,253.51)
Cash Payments to Suppliers for Goods or Services	(86,897.20)	(761.58)	(87,658.78)
Net Cash Provided (Used) by Operating Activities	(38,533.45)	(4,294.01)	(42,827.46)
Cash Flows from Noncapital Financing Activities:			
Transfers to General Fund		(95.19)	(95.19)
Operating Grants	90,205.63	5,850.00	96,055.63
Net Cash Provided (Used) from Noncapital Financing Activities	90,205.63	5,754.81	95,960.44
Cash Flows from Capital and Related Financing Activities:			
Purchase of Capital Assets	(3,134.66)		(3,134.66)
Net Cash Provided (Used) from Capital and Related Financing Activities	(3,134.66)	0.00	(3,134.66)
Cash Flows from Investing Activities:			
Cash Received for Interest	525.50	97.68	623.18
Net Cash Provided (Used) from Investing Activities	525.50	97.68	623.18
Net Increase (Decrease) in Cash and Cash Equivalents	49,063.02	1,558.48	50,621.50
Cash and Cash Equivalents at Beginning of Year	68,586.72	16,770.25	85,356.97
CASH AND CASH EQUIVALENTS AT END OF YEAR	117,649.74	18,328.73	135,978.47
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	(61,620.89)	(4,342.77)	(65,963.66)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	1,687.34		1,687.34
Value of Donated Commodities Used	26,905.17		26,905.17
(Increase) decrease in Inventories	(2,305.40)		(2,305.40)
(Decrease) increase in Accounts and Other Payables	(723.76)		(723.76)
(Decrease) increase in Accrued Wages Payable	(2,475.91)	48.76	(2,427.15)
Net Cash Provided (Used) by Operating Activities	(38,533.45)	(4,294.01)	(42,827.46)
Noncash Investing, Capital and Financing Activities:			
Value of Commodities Received	25,236.05		25,236.05

The notes to the financial statements are an integral part of this statement.

PARKSTON SCHOOL DISTRICT NO. 33-3
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
As of June 30, 2019

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS:		
Cash and Cash Equivalents	4,075.43	51,005.00
Investments in Certificates of Deposit		10,000.00
TOTAL ASSETS	4,075.43	61,005.00
LIABILITIES:		
Accounts Payable and Others Payables		346.21
Amounts Held for Others		60,658.79
TOTAL LIABILITIES	0.00	61,005.00
NET POSITION		
Held in Trust for Scholarships	4,075.43	
TOTAL NET POSITION	4,075.43	

The notes to the financial statements are an integral part of this statement.

PARKSTON SCHOOL DISTRICT NO. 33-3
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2019

	<u>Private-Purpose Trust Funds</u>
ADDITIONS:	
Contributions and Donations	<u>1,050.00</u>
Total Additions	<u>1,050.00</u>
DEDUCTIONS:	
Total Deductions	<u>0.00</u>
Change in Net Position	<u>1,050.00</u>
Net Position - Beginning	<u>3,025.43</u>
NET POSITION - ENDING	<u><u>4,075.43</u></u>

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Financial Reporting Entity:

The reporting entity of Parkston School District No. 33-3 (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 financial reporting entity'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 financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the School District.

b. Basis of Presentation:

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity 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 minus liabilities equal net position). Net position is 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements:

Fund financial statements of the reporting entity 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 percent 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 five percent 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.

The funds of the School District financial reporting entity 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.

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 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 paying pensions to retired employees of school districts, which have established such systems, paying the district's share of retirement plan contributions, and for funding early retirement benefits to qualifying employees. 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 payment of, general long-term debt principal, interest, and related costs.

The QZAB Bond Debt Service Fund – A fund established by SDCL 13-16-13 to account for the bond escrow payments to be used for the future payment of principal on Qualified Zone Academy Bonds. This is a major fund.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

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.

Driver's Education/Preschool Fund – A fund used to record financial transactions related to the driver's education, preschool programs, and advanced placement classes. This fund is financed by user charges. This is a major fund.

Fiduciary Funds:

Fiduciary funds consist of the following sub-categories are never considered to be major funds.

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

Scholarship funds for the benefit of students.

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 for the following purposes:

Funds for student activities and organizations in the district and teacher cafeteria plans.

c. 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.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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 fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary 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 all the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Parkston School District No. 33-3, the length of that cycle is 60 days. The revenues which are accrued at June 30, 2019, are grants from the State of South Dakota, utility taxes, and miscellaneous 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 deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

d. Deposits and Investments:

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. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Law (SDCL) 4-5-6.

e. 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. Donated capital assets are valued at their estimated acquisition value on the date donated.

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

The total June 30, 2019 balance of capital assets for governmental activities includes approximately two percent for which the costs were determined by estimates of the original costs. The total June 30, 2019 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	\$ 0.00	----N/A----	----N/A----
Site Improvements	\$ 15,000.00	Straight-line	15-35 yrs.
Buildings & Building Improvements	\$ 50,000.00	Straight-line	35-75 yrs.
Machinery & Equipment	\$ 5,000.00	Straight-line	7-20 yrs.
Food Service - Machinery & Equipment	\$ 500.00	Straight-line	12 yrs.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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 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.

f. 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 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 QZAB bonds.

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.

g. Program Revenues:

In the Government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the 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, applications, 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.

h. 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, noncapital financing activities, or investing activities are not reported as components of operating revenues and expenses.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

i. Cash and Cash Equivalents:

The School District pools its cash resources for depositing and investing purposes. Accordingly, the enterprise fund has access to its cash resources on demand. Accordingly, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

j. 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 is distinguished between Nonspendable, Restricted, Committed, Assigned or 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.

k. 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 is available.

l. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, 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.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

- 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 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/committed 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 and Grant Revenue
Pension	Property Taxes

m. Pensions:

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. School District contributions and net pension liability (asset) are recognized on an accrual basis of accounting.

2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

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 as follows:

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 percent 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Investments – In general, SDCL 4-5-6 permits school district funds to be invested only 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 investments to 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.

As of June 30, 2019, the School District did not have any investments. The investments reported in the financial statements consist of only certificates of deposit.

Credit Risk – State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of December 31, 2019, the District's deposits in financial institutions were exposed to custodial credit risk as follows:

<u>Depository Name</u>	<u>% Under-collateralized</u>	<u>At-Risk Amount</u>
First National Bank - Philip	0.11%	\$ 217.80
Total Deposits Exposed to Custodial Credit Risk		\$ 217.80

Concentration of Credit Risk – The School District places no limit on the amount that may be invested in any one issuer.

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.

Assignment of Investment Income – 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 General Fund, except for the Scholarship and Food Service funds which retain their investment income. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities. These interfund transfers are not violations of the statutory restrictions on interfund transfers.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. RESTRICTED CASH AND INVESTMENTS

Assets restricted to use for a specific purpose through segregation of balances in separate accounts are as follows:

Amount:	Purpose:
\$198,000.00	For Debt Service, by debt covenants

4. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year.

5. INVENTORY

Inventory held for consumption is stated at cost. Inventory for resale is stated at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt. In the Government-wide 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 fund financial statements, inventories in the General Fund, special revenue funds, and proprietary funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed in the General Fund, special revenue funds, and proprietary funds. No material supplies inventories were on hand at June 30, 2019 in the General Fund and special revenue funds.

6. PROPERTY TAXES

Property taxes are levied on or before each October 1, attach as an enforceable lien on property as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. 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 the 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 the 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."

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2019, is as follows:

Primary Government

	Balance 07/01/18	Increases	Decreases	Balance 06/30/19
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	104,410.34			104,410.34
Construction Work in Progress	606,433.92	1,276,128.50	(1,882,562.42)	0.00
Total, not being depreciated	<u>710,844.26</u>	<u>1,276,128.50</u>	<u>(1,882,562.42)</u>	<u>104,410.34</u>
Capital Assets, being depreciated:				
Improvements	718,619.46	1,615,741.36	(104,159.46)	2,230,201.36
Buildings	8,365,821.20	284,071.06		8,649,892.26
Machinery & Equipment	565,970.20			565,970.20
Total, being depreciated	<u>9,650,410.86</u>	<u>1,899,812.42</u>	<u>(104,159.46)</u>	<u>11,446,063.82</u>
Less Accumulated Depreciation for:				
Improvements	(596,941.92)	(16,821.00)	101,036.95	(512,725.97)
Buildings	(2,577,530.26)	(113,442.00)		(2,690,972.26)
Machinery & Equipment	(454,101.16)	(20,724.12)		(474,825.28)
Total Accumulated Depreciation	<u>(3,628,573.34)</u>	<u>(150,987.12)</u>	<u>101,036.95</u>	<u>(3,678,523.51)</u>
Total Capital Assets, being depreciated, net	<u>6,021,837.52</u>	<u>1,748,825.30</u>	<u>(3,122.51)</u>	<u>7,767,540.31</u>
Governmental Activity Capital Assets, Net	<u>6,732,681.78</u>	<u>3,024,953.80</u>	<u>(1,885,684.93)</u>	<u>7,871,950.65</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:

Instruction	93,745.00
Support Services	26,766.71
Co-curricular Activities	30,475.41
Total Depreciation Expense - Governmental Activities	<u>150,987.12</u>

	Balance 07/01/18	Increases	Decreases	Balance 06/30/19
Business-Type Activities:				
Capital Assets, being depreciated:				
Machinery & Equipment	204,959.06	3,134.66		208,093.72
Total, being depreciated	<u>204,959.06</u>	<u>3,134.66</u>	<u>0.00</u>	<u>208,093.72</u>
Less Accumulated Depreciation for:				
Machinery & Equipment	(187,668.37)	(1,687.34)		(189,355.71)
Total Accumulated Depreciation	<u>(187,668.37)</u>	<u>(1,687.34)</u>	<u>0.00</u>	<u>(189,355.71)</u>
Business-Type Activity Capital Assets, Net	<u>17,290.69</u>	<u>1,447.32</u>	<u>0.00</u>	<u>18,738.01</u>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Depreciation expense was charged to functions as follows:

Business-Type Activities:

Food Services	1,687.34
Total Depreciation Expense - Business-Type Activities	1,687.34

8. LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities for the year ended June 30, 2019 is as follows:

	Beginning Balance 7/1/2018	Additions	Deletions	Ending Balance 6/30/2019	Due Within One Year
Primary Government:					
Governmental Activities:					
Capital Outlay Certificates (QZAB)					
Bonds - Series 2017	924,000.00			924,000.00	0.00
Total Governmental Activities	924,000.00	0.00	0.00	924,000.00	0.00
TOTAL PRIMARY GOVERNMENT	924,000.00	0.00	0.00	924,000.00	0.00

Liabilities Payable at June 30, 2019, is comprised of the following:

PRIMARY GOVERNMENT

Governmental Activities:

Capital Outlay Certificates (QZAB) Series 2017	\$ 924,000.00
Maturity Date: December 15, 2024	
Interest Rate: 0%	
Payable from the QZAB Debt Service Fund	

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

The annual debt service requirements to maturity, except for compensated absences, for all debt outstanding as of June 30, 2019 are as follows:

Annual Requirements to Maturity for Long-Term Debt
June 30, 2019

Year	QZAB Capital Outlay Certificates - Series 2017		Totals	
	Principal	Interest	Principal	Interest
2020			0.00	0.00
2021			0.00	0.00
2022			0.00	0.00
2023			0.00	0.00
2024			0.00	0.00
2025	924,000.00		924,000.00	0.00
Totals	<u>924,000.00</u>	<u>0.00</u>	<u>924,000.00</u>	<u>0.00</u>

9. OPERATING LEASES

The copier lease payments for two Savin copy machines are paid by the Capital Outlay Fund. The School also entered into a service contract with Trane Heating and A/C, and payments are paid by the Capital Outlay Fund. The following are the minimum payments on existing operating leases:

Year	Copier Lease Amount Capital Outlay Fund	Trane Service Contract Capital Outlay Fund
2020	11,522.76	928.66
2021	11,522.76	

10. DEFERRED INFLOWS AND DEFERRED OUTFLOWS OF RESOURCES

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

11. RESTRICTED NET POSITION

Restricted net position for the fiscal year ended June 30, 2019 was as follows:

<u>FUND</u>	<u>Restricted By:</u>	<u>Amount</u>
Capital Outlay	Law	555,175.36
Special Education	Law	245,967.25
Pension	Law	72,886.18
Debt Service	Debt Covenants	198,000.00
SDSR Pension	Governmental Accounting Standards	886,343.70
Total Restricted Net Position		<u>1,958,372.49</u>

12. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2019 were as follows:

<u>Transfers From:</u>	<u>Transfers To:</u>		<u>TOTALS</u>
	<u>General Fund</u>	<u>QZAB Debt Service Fund</u>	
Major Funds:			
Capital Outlay Fund	211,038.03	132,000.00	343,038.03
Special Education Fund	877.92		877.92
Pension Fund	71,729.36		71,729.36
Driver's Education/ Preschool Fund	95.19		95.19
Total	<u>283,740.50</u>	<u>132,000.00</u>	<u>415,740.50</u>

Transfers of investment and deposit earnings to the General Fund are reported. SDCL 4-5-9 and 13-16-18 give the school board the authority to designate whether all such earnings should be retained by any individual funds or credited to the General Fund. These interfund transfers are not violations of the statutory restrictions on interfund transfers. Transfers are also made to conduct indispensable functions of the School District and to fund the QZAB Debt Service Fund.

13. 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 SDCL 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.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Benefits Provided:

SDRS has three different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level.

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

Legislation enacted in 2017 established the current COLA process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2019, 2018, and

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2017 were \$178,683.37, \$174,519.29, and \$166,468.22, respectively, equal to the required contributions each year.

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

At June 30, 2018, SDRS is 100.02% funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of South Dakota Retirement System, for the School District as of the measurement period ending June 30, 2018 and reported by the School District as of June 30, 2019 are as follows:

Proportionate share of pension liability	\$ 18,075,820.23
Less proportionate share of net pension restricted for pension benefits	<u>\$ 18,079,266.29</u>
Proportionate share of net pension liability (asset)	<u>\$ (3,446.06)</u>

At June 30, 2019, the School District reported a liability (asset) of \$(3,446.06) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2018 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, 2018, the School District's proportion was 0.14775810%, which is an increase (decrease) of 0.0112777% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the School District recognized pension expense (reduction of pension expense) of \$263,012.82. At June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Difference between expected and actual experience.	\$ 130,248.42	
Changes in assumption.	\$ 874,894.49	
Net Difference between projected and actual earnings on pension plan investments.		\$ 260,441.85
Changes in proportion and difference between School district contributions and proportionate share of contributions.	\$ 18,809.51	\$ 59,296.30
School District contributions subsequent to the measurement date.	<u>\$ 178,683.37</u>	
TOTAL	<u>\$ 1,202,635.79</u>	<u>\$ 319,738.15</u>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

\$178,683.37 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended	
June 30:	
2020	\$ 466,388.30
2021	\$ 335,576.47
2022	\$ (63,306.12)
2023	<u>\$ (34,444.39)</u>
TOTAL	<u>\$ 704,214.26</u>

Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50 percent net of plan investment expense

Mortality rates were based on 97% of the RP-2014 Mortality Table, projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, projected generationally with Scale MP-2016.

A detailed experience analysis covering the period from June 30, 2011 to June 30, 2016, was conducted and appropriate modifications in the economic and demographic assumptions were made effective with the June 30, 2017 actuarial valuation.

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, 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

<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%
Total	100%	

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 6.50%. 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 liability (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 6.50 percent as well as what the School District'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 (5.50%) or 1-percentage point higher (7.50%) 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)	\$2,602,742.27	\$(3,446.06)	\$(2,123,438.85)

Pension Plan Fiduciary Net Position:

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

14. JOINT VENTURES

The School District participates in the James Valley Education Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education services to the member school districts. The members of the co-op and their relative percentage participation in the co-op are as follows:

Mitchell School District	74.2%
Parkston School District	14.2%
Sanborn Central School District	6.6%
Woonsocket School District	5.0%

The co-op's governing board is composed of two representatives from each member school district, who are the Superintendent who serves on an advisory board and a School Board Member who serves on the

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

governing board. 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 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.

Separate financial statements for this joint venture are available from the James Valley Education Cooperative.

At June 30, 2019, this joint venture had total assets of \$59,324.19, total liabilities of \$33,924.84, and net position of \$25,399.35.

15. 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. During the period ended June 30, 2019, the School District managed its risks as follows:

Employee Health Insurance:

The School District joined the South Dakota School District Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government 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 School District does not carry additional health insurance coverage 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.

Liability Insurance:

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

Worker's Compensation:

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 of the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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 carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over 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.

During the year ended June 30, 2019, one claim was filed for unemployment benefits. This claim resulted in the payment of benefits in the amount of \$616.15. At June 30, 2019, no claims had been filed and were outstanding. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

16. SIGNIFICANT CONTINGENCIES – LITIGATION

At June 30, 2019, the School District was not involved in any significant litigation.

17. EARLY RETIREMENT BENEFITS

Any certified employee who has served in the District for 15 years may elect early retirement at age 55 to 62 for 80 percent of 2016-2017 salary, 50 percent of 2017-2018 salary, and 30 percent of 2018-2019 salary. Termination year is the first school year that the retiree is not working. A maximum of four employees per year will be accepted with an option for the board to allow additional retirees. The early retirement policy ceased to exist following the close of the 2018-2019 school year.

Payment of the net amount of benefit will be one lump sum on the payday of the first pay period in July of the termination year. This payment will be made to the South Dakota Retirement System Special Pay Plan.

18. RELATED ORGANIZATION

The Parkston Community School Foundation was incorporated to promote the further educational development of Parkston School District No. 33-3 students and graduates. The organization is a nonprofit corporation governed by five trustees of which none are appointed by the Parkston School District No. 33-3.

The School District does not control it since the School District does not approve the organization's financial decisions.

REQUIRED SUPPLEMENTARY INFORMATION
PARKSTON SCHOOL DISTRICT NO. 33-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	1,074,944.00	1,074,944.00	1,063,988.78	(10,955.22)
Prior Years' Ad Valorem Taxes	10,000.00	10,000.00	3,194.43	(6,805.57)
Utility Taxes	136,000.00	136,000.00	154,521.63	18,521.63
Penalties and Interest on Taxes	3,500.00	3,500.00	3,774.40	274.40
Tuition and Fees:				
Regular Day School Tuition	40,000.00	40,000.00	68,357.46	28,357.46
Regular Day School Transportation Fees	5,000.00	5,000.00	0.00	(5,000.00)
Earnings on Investments and Deposits	6,000.00	6,000.00	9,913.26	3,913.26
Cocurricular Activities:				
Admissions	38,500.00	38,500.00	48,299.22	9,799.22
Rentals	0.00	0.00	105.00	105.00
Other Student Activity Income	2,000.00	2,000.00	2,855.00	855.00
Other Revenue from Local Sources:				
Rentals	6,000.00	6,000.00	10,320.00	4,320.00
Contributions and Donations	2,000.00	2,000.00	10,673.65	8,673.65
Charges for Services	4,000.00	4,000.00	5,301.63	1,301.63
Other	5,000.00	5,000.00	8,970.83	3,970.83
Revenue from Intermediate Sources:				
County Sources:				
County Apportionment	17,500.00	17,500.00	11,956.63	(5,543.37)
Revenue in Lieu of Taxes	2,500.00	2,500.00	2,237.76	(262.24)
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	1,978,473.00	1,978,473.00	2,123,635.97	145,162.97
Restricted Grants-in-Aid	0.00	0.00	3,986.04	3,986.04
Tuition:				
Regular	85,000.00	85,000.00	204,960.55	119,960.55
Other State Revenue	21,000.00	21,000.00	0.00	(21,000.00)
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received Directly from the Federal Government	26,111.00	26,111.00	24,252.00	(1,859.00)
Restricted Grants-in-Aid Received from Federal Government Through the State	222,349.00	222,349.00	203,115.00	(19,234.00)
Total Revenue	3,685,877.00	3,685,877.00	3,964,419.24	278,542.24

REQUIRED SUPPLEMENTARY INFORMATION
PARKSTON SCHOOL DISTRICT NO. 33-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	1,366,524.00	1,366,524.00	1,332,387.93	34,136.07
Middle/Junior High	205,821.00	205,821.00	200,933.11	4,887.89
High School	818,671.00	818,671.00	791,160.28	27,510.72
Preschool Services	31,644.00	31,644.00	29,777.35	1,866.65
Special Programs:				
Educationally Deprived	169,031.00	169,031.00	159,286.08	9,744.92
Support Services:				
Students:				
Guidance	109,666.00	109,666.00	100,120.58	9,545.42
Health	3,300.00	3,300.00	3,208.76	91.24
Instructional Staff:				
Improvement of Instruction	13,700.00	13,700.00	16,784.24	(3,084.24)
Educational Media	167,071.00	167,071.00	104,467.77	62,603.23
General Administration:				
Board of Education	58,563.00	58,563.00	43,468.59	15,094.41
Executive Administration	174,012.00	174,012.00	143,899.09	30,112.91
School Administration:				
Office of the Principal	256,402.00	256,402.00	245,147.00	11,255.00
Other	2,000.00	2,000.00	561.57	1,438.43
Business:				
Fiscal Services	121,139.00	121,139.00	116,709.46	4,429.54
Operation and Maintenance of Plant	400,271.00	402,871.00	394,867.52	8,003.48
Student Transportation Services	215,000.00	230,000.00	217,423.67	12,576.33
Central:				
Staff	750.00	750.00	648.75	101.25
Nonprogrammed Charges:				
Payments to State - Unemployment	0.00	700.00	616.15	83.85
Cocurricular Activities:				
Male Activities	64,492.00	64,492.00	63,089.53	1,402.47
Female Activities	53,395.00	53,395.00	47,927.12	5,467.88
Transportation	45,300.00	45,300.00	38,597.88	6,702.12
Combined Activities	106,039.00	106,039.00	107,506.16	(1,467.16)
Total Expenditures	4,382,791.00	4,401,091.00	4,158,588.59	242,502.41
Excess of Revenue Over (Under) Expenditures	(696,914.00)	(715,214.00)	(194,169.35)	521,044.65
Other Financing Sources (Uses):				
Transfers In	350,000.00	350,000.00	283,740.50	(66,259.50)
Transfers Out	(16,645.00)	(16,645.00)	0.00	16,645.00
Total Other Financing Sources (Uses)	333,355.00	333,355.00	283,740.50	(49,614.50)
Net Change in Fund Balances	(363,559.00)	(381,859.00)	89,571.15	471,430.15
Fund Balance - Beginning	1,149,893.42	1,149,893.42	1,149,893.42	0.00
FUND BALANCE - ENDING	786,334.42	768,034.42	1,239,464.57	471,430.15

REQUIRED SUPPLEMENTARY INFORMATION
PARKSTON SCHOOL DISTRICT NO. 33-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL OUTLAY FUND
For the Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	837,471.00	837,471.00	835,065.14	(2,405.86)
Prior Years' Ad Valorem Taxes	750.00	750.00	1,626.85	876.85
Penalties and Interest on Taxes	1,000.00	1,000.00	1,285.40	285.40
Earnings on Investments and Deposits	0.00	0.00	6,093.85	6,093.85
Other Revenue from Local Sources:				
Contributions and Donations	0.00	0.00	712.50	712.50
Other	24,965.00	24,965.00	6,740.00	(18,225.00)
Total Revenue	864,186.00	864,186.00	851,523.74	(12,662.26)
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	158,000.00	158,000.00	123,316.68	34,683.32
High School	103,000.00	103,000.00	24,804.20	78,195.80
Special Programs:				
Programs for Special Education	2,500.00	2,500.00	0.00	2,500.00
Support Services:				
Students:				
Guidance	1,500.00	1,500.00	0.00	1,500.00
Speech Pathology	1,500.00	1,500.00	0.00	1,500.00
Instructional Staff:				
Educational Media	44,000.00	44,000.00	24,193.06	19,806.94
General Administration:				
Board of Education	2,000.00	2,000.00	0.00	2,000.00
Executive Administration	4,000.00	4,000.00	585.00	3,415.00
School Administration:				
Office of the Principal	8,500.00	8,500.00	3,380.78	5,119.22
Business:				
Fiscal Services	12,000.00	12,000.00	6,311.98	5,688.02
Facilities Acquisition and Construction	1,344,000.00	1,344,000.00	1,331,276.16	12,723.84
Operation and Maintenance of Plant	52,500.00	52,500.00	2,319.82	50,180.18
Cocurricular Activities:				
Combined Activities	20,675.00	20,675.00	13,354.52	7,320.48
Total Expenditures	1,754,175.00	1,754,175.00	1,529,542.20	224,632.80
Excess of Revenue Over (Under) Expenditures	(889,989.00)	(889,989.00)	(678,018.46)	211,970.54

REQUIRED SUPPLEMENTARY INFORMATION
PARKSTON SCHOOL DISTRICT NO. 33-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL OUTLAY FUND
For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses):				
Transfers Out	(482,000.00)	(482,000.00)	(343,038.03)	138,961.97
Total Other Financing Sources (Uses)	(482,000.00)	(482,000.00)	(343,038.03)	138,961.97
Net Change in Fund Balances	(1,371,989.00)	(1,371,989.00)	(1,021,056.49)	350,932.51
Fund Balance - Beginning	1,566,462.04	1,566,462.04	1,566,462.04	0.00
FUND BALANCE - ENDING	<u>194,473.04</u>	<u>194,473.04</u>	<u>545,405.55</u>	<u>350,932.51</u>

REQUIRED SUPPLEMENTARY INFORMATION
PARKSTON SCHOOL DISTRICT NO. 33-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SPECIAL EDUCATION FUND
For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	672,200.00	672,200.00	671,947.75	(252.25)
Prior Years' Ad Valorem Taxes	0.00	0.00	1,281.17	1,281.17
Penalties and Interest on Taxes	750.00	750.00	1,000.11	250.11
Tuition and Fees:				
Regular Day School Tuition	0.00	0.00	10,209.60	10,209.60
Earnings on Investments and Deposits	0.00	0.00	830.69	830.69
Other Revenue from Local Sources:				
Charges for Services	3,000.00	3,000.00	7,715.09	4,715.09
Tuition:				
Special Education	0.00	0.00	2,047.20	2,047.20
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through the State	122,313.00	122,313.00	124,105.20	1,792.20
Total Revenue	798,263.00	798,263.00	819,136.81	20,873.81
Expenditures:				
Instruction:				
Special Programs:				
Programs for Special Education	621,096.00	637,096.00	643,737.35	(6,641.35)
Support Services:				
Students:				
Psychological	16,500.00	16,500.00	9,230.00	7,270.00
Speech Pathology	80,840.00	80,840.00	66,461.20	14,378.80
Student Therapy Services	38,000.00	38,000.00	34,790.00	3,210.00
Student Transportation Services		4,000.00	0.00	4,000.00
Special Education:				
Administrative Costs	55,730.00	55,730.00	48,460.24	7,269.76
Transportation Costs	2,000.00	2,000.00	3,522.78	(1,522.78)
Other Special Education Costs	7,000.00	7,000.00		7,000.00
Total Expenditures	821,166.00	841,166.00	806,201.57	34,964.43
Excess of Revenue Over (Under) Expenditures	(22,903.00)	(42,903.00)	12,935.24	55,838.24
Other Financing Sources (Uses):				
Transfers Out	0.00	0.00	(877.92)	(877.92)
Total Other Financing Sources (Uses)	0.00	0.00	(877.92)	(877.92)
Net Change in Fund Balances	(22,903.00)	(42,903.00)	12,057.32	54,960.32
Fund Balance - Beginning	226,683.60	226,683.60	226,683.60	0.00
FUND BALANCE - ENDING	203,780.60	183,780.60	238,740.92	54,960.32

REQUIRED SUPPLEMENTARY INFORMATION
PARKSTON SCHOOL DISTRICT NO. 33-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
PENSION FUND
For the Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Prior Years' Ad Valorem Taxes	0.00	0.00	30.15	30.15
Penalties and Interest on Taxes	0.00	0.00	8.55	8.55
Earnings on Investments and Deposits	0.00	0.00	1,714.75	1,714.75
Total Revenue	0.00	0.00	1,753.45	1,753.45
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	40,000.00	40,000.00	0.00	40,000.00
High School	40,000.00	40,000.00	0.00	40,000.00
Nonprogrammed Charges:				
Early Retirement Payments	60,000.00	60,000.00	46,768.20	13,231.80
Total Expenditures	140,000.00	140,000.00	46,768.20	93,231.80
Excess of Revenue Over (Under)				
Expenditures	(140,000.00)	(140,000.00)	(45,014.75)	94,985.25
Other Financing Sources (Uses):				
Transfers Out	0.00	0.00	(71,729.36)	(71,729.36)
Total Other Financing Sources (Uses)	0.00	0.00	(71,729.36)	(71,729.36)
Net Change in Fund Balances	(140,000.00)	(140,000.00)	(116,744.11)	23,255.89
Fund Balance - Beginning	189,191.48	189,191.48	189,191.48	0.00
FUND BALANCE - ENDING	49,191.48	49,191.48	72,447.37	23,255.89

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2019

Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget.

Note 1. Budgets and Budgetary Accounting

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

1. Prior to the first regular 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 and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated by number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent 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 and special revenue funds.
11. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Note 2. GAAP/Budgetary Accounting Basis Differences

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new school bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a school bus would be reported as an expenditure of the Support Services-Business/Student Transportation function of government, along with all other current Student Transportation related expenditures.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)

South Dakota Retirement System

Last 5 Fiscal Years *

	2019	2018	2017	2016	2015
District's proportion of the net pension liability/asset	0.1477581%	0.1364804%	0.1377155%	0.1447797%	0.1585504.%
District's proportionate share of net pension liability (asset)	\$ (3,446)	\$ (12,386)	\$ (465,189)	\$ (614,052)	\$ (1,141,959)
District's covered-employee payroll	\$ 2,908,634	\$ 2,774,449	\$ 2,618,660	\$ 2,643,265	\$ 2,771,781
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.12%	0.45%	17.76%	23.23%	41.20%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.02%	100.10%	96.89%	104.10%	107.30%

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 06/30 of the previous fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE SCHOOL DISTRICT CONTRIBUTIONS

South Dakota Retirement System

Last 5 Fiscal Years

	2019	2018	2017	2016	2015
Contractually required contribution	\$ 178,683	\$ 174,519	\$ 166,468	\$ 157,120	\$ 158,596
Contributions in relation to the contractually required contribution	\$ 178,683	\$ 174,519	\$ 166,468	\$ 157,120	\$ 158,596
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 2,978,058	\$ 2,908,634	\$ 2,774,449	\$ 2,618,650	\$ 2,643,265
Contributions as a percentage of covered-employee payroll	6.0%	6.0%	6.0%	6.0%	6.0%

**Notes to Required Supplementary Information
for the Year Ended June 30, 2019**

Schedule of the Proportionate Share of the Net Pension Liability (Asset) and
Schedule of Pension Contributions.

Changes of benefit terms:

No significant changes.

Changes of assumptions:

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2017 and exists again this year as of June 30, 2018. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.89% as of June 30, 2017 and is 2.03% as of June 30, 2018.

The changes in actuarial assumptions increased the Actuarial Accrued Liability by 1.5% of the Actuarial Accrued Liability based on the 1.89% COLA, reflecting the current and assumed future restricted maximum COLA of 2.03%.