

**ARLINGTON  
SCHOOL DISTRICT NO. 38-1  
  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT  
  
JUNE 30, 2018**

**QUAM, BERGLIN & POST, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

**ARLINGTON SCHOOL DISTRICT NO. 38-1  
SCHOOL DISTRICT OFFICIALS  
JUNE 30, 2018**

**School Board**

Martin Murphy

Michael Baker

Jolene King

Marshal Mix

Justin Petersen

**Business Manager**

Brian Sampson

**Superintendent**

Justin Downes

ARLINGTON SCHOOL DISTRICT NO. 38-1  
TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
<b>BASIC FINANCIAL STATEMENTS:</b>	
Government-Wide Financial Statements:	
Statement of Net Position	4
Statement of Activities	5
Fund Financial Statements:	
Balance Sheet – Governmental Funds	6
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	7
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities	11
Balance Sheet – Proprietary Funds	12
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	13
Statement of Cash Flows – Proprietary Funds	14
Statement of Net Position – Fiduciary Funds	15
Statement of Changes in Net Position – Fiduciary Funds	16
Notes to the Financial Statements	17
Required Supplementary Information:	
Budgetary Comparison Schedules- Budgetary Basis:	
General Fund	36
Capital Outlay Fund	38
Special Education Fund	39
Schedule of Changes in Total OPEB Liability	40
Schedule of the Proportionate Share of the Net Pension Liability (Asset)	41
Schedule of the School District Contributions	42
Notes to the Required Supplementary Information	43
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 <i>Government Auditing Standards</i>	44
Schedule of Audit Findings	46

# QUAM, BERGLIN & POST, P.C.

CERTIFIED PUBLIC ACCOUNTANTS  
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ELK POINT, SOUTH DAKOTA 57025

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(605) 356-3374

## INDEPENDENT AUDITOR'S REPORT

School Board  
Arlington School District No. 38-1  
Kingsbury 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 Arlington School District No. 38-1, Kingsbury County, South Dakota, as of June 30, 2018 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 Arlington 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.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Arlington School District No. 38-1 as of June 30, 2018, and the respective changes in financial position and, where applicable cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

### ***Adoption of New Accounting Standard***

As described in the Notes to the Financial Statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions-An Amendment of GASB Statement No. 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. As discussed in the Notes to the Financial Statements, the School District has retroactively restated the previously reported Net Position in accordance with this statement. Our opinions are not modified with respect to the matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules and Schedule of Changes in OPEB Liability, the Schedule of the Proportionate Share of the Net Pension Liability (Asset), the Schedule of the School District Contributions, as listed in the Table of Contents, 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 the 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 the 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 January 29, 2019 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts 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.

*Quam, Berglin & Post P.C.*

Quam, Berglin & Post, P.C.  
Certified Public Accountants

January 29, 2019

**ARLINGTON SCHOOL DISTRICT NO. 38-1**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 3,361,152.96	\$ 14,123.16	\$ 3,375,276.12
Investments-CDs	246,218.76		246,218.76
Taxes Receivable	1,350,147.69		1,350,147.69
Interest Receivable	1,189.15		1,189.15
Due from Government	59,570.57		59,570.57
Inventories		7,047.48	7,047.48
Net Pension Asset	7,837.00		7,837.00
NPIP Deposit	23,666.00		23,666.00
Prepaid Expense	4,822.00		4,822.00
Capital Assets:			
Land	37,132.50		37,132.50
Other Capital Assets, Net of Depreciation	5,360,951.33	4,530.32	5,365,481.65
<b>TOTAL ASSETS</b>	<b>10,452,687.96</b>	<b>25,700.96</b>	<b>10,478,388.92</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Pension Related Deferred Outflows	846,259.20		846,259.20
<b>LIABILITIES :</b>			
Accounts Payable	33,640.55	26.00	33,666.55
Accrued Wages and Benefits Payable	235,521.33	30.55	235,551.88
Noncurrent Liabilities:			
Due Within One Year	365,352.55	5,280.23	370,632.78
Due in More than One Year	1,310,934.55		1,310,934.55
<b>TOTAL LIABILITIES</b>	<b>1,945,448.98</b>	<b>5,336.78</b>	<b>1,950,785.76</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Taxes Levied for Future Period	1,345,552.97		1,345,552.97
OPEB Related Deferred Inflows	7,045.00		7,045.00
Pension Related Deferred Inflows	152,729.01		152,729.01
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>1,505,326.98</b>		<b>1,505,326.98</b>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	3,868,083.83	4,530.32	3,872,614.15
Restricted for:			
Capital Outlay	1,371,207.13		1,371,207.13
Special Education	725,869.54		725,869.54
Pension	222,721.78		222,721.78
Debt Service	89,131.96		89,131.96
SDRS Pension Purposes	701,367.19		701,367.19
Health Insurance Purposes	23,666.00		23,666.00
Unrestricted	846,123.77	15,833.86	861,957.63
<b>TOTAL NET POSITION</b>	<b>\$ 7,848,171.20</b>	<b>\$ 20,364.18</b>	<b>\$ 7,868,535.38</b>

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

**ARLINGTON SCHOOL DISTRICT NO. 38-1**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

<u>Functions/Programs</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>				
	<u>Program Revenues</u>		<u>Primary Government</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
Instruction	\$ 1,673,176.26	\$ 1,438.19	\$ 129,776.11	\$ (1,541,961.96)	\$ (1,541,961.96)
Support Services	1,327,232.43			(1,327,232.43)	(1,327,232.43)
*Interest on Long-term Debt	27,147.50			(27,147.50)	(27,147.50)
Cocurricular Activities	241,777.85	22,877.26		(218,900.59)	(218,900.59)
<b>Total Governmental Activities</b>	<u>3,269,334.04</u>	<u>24,315.45</u>	<u>129,776.11</u>	<u>(3,115,242.48)</u>	<u>(3,115,242.48)</u>
<b>Business-type Activities:</b>					
Food Service	141,479.40	94,331.52	46,029.81		(1,118.07)
Preschool	35,348.35	12,412.50	11,778.00		(11,157.85)
<b>Total Business-type Activities</b>	<u>176,827.75</u>	<u>106,744.02</u>	<u>57,807.81</u>		<u>(12,275.92)</u>
<b>Total Primary Government</b>	<u>\$ 3,446,161.79</u>	<u>\$ 131,059.47</u>	<u>\$ 187,583.92</u>	<u>(3,115,242.48)</u>	<u>(3,127,518.40)</u>
<b>General Revenues:</b>					
<b>Taxes:</b>					
Property Taxes				3,040,497.76	3,040,497.76
Utility Taxes				57,288.60	57,288.60
Revenue from State Sources:					
State Aid				817,438.76	817,438.76
Unrestricted Investment Earnings				12,012.57	12,046.62
Other General Revenues				39,525.62	39,525.62
<b>Transfers:</b>				<u>(11,157.85)</u>	<u>11,157.85</u>
<b>Total General Revenues and Transfers:</b>				<u>3,955,605.46</u>	<u>3,966,797.36</u>
Change in Net Position				840,362.98	839,278.96
Net Position - Beginning				7,044,137.22	7,065,585.42
Prior Period Adjustment				<u>(36,329.00)</u>	<u>(36,329.00)</u>
Adjusted Net Position - Beginning				<u>7,007,808.22</u>	<u>7,029,256.42</u>
<b>NET POSITION - ENDING</b>				<u>\$ 7,848,171.20</u>	<u>\$ 7,868,535.38</u>

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

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



ARLINGTON SCHOOL DISTRICT NO. 38-1  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2018

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Total Governmental Funds
<b>ASSETS</b>						
Assets:						
Cash and Cash Equivalents	\$ 1,028,063.26	\$ 1,315,987.12	\$ 753,562.44	\$ 200,832.76	\$ 62,707.38	\$ 3,361,152.96
Investments-CDs	144,691.43	53,918.67		21,754.42	25,854.24	246,218.76
Interest Receivable	718.55	240.05		96.85	133.70	1,189.15
Taxes Receivable--Current	533,163.42	443,774.28	243,566.18		125,049.09	1,345,552.97
Taxes Receivable--Delinquent	2,338.45	1,062.95	718.93	37.75	436.64	4,594.72
Due from Other Governments	59,570.57					59,570.57
NPIP Deposit	23,666.00					23,666.00
Prepaid Expenses	4,822.00					4,822.00
<b>TOTAL ASSETS</b>	<b>\$ 1,797,033.68</b>	<b>\$ 1,814,983.07</b>	<b>\$ 997,847.55</b>	<b>\$ 222,721.78</b>	<b>\$ 214,181.05</b>	<b>\$ 5,046,767.13</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:</b>						
Liabilities:						
Accounts Payable	\$ 24,196.37	\$ 1.66	\$ 9,442.52	\$	\$	\$ 33,640.55
Contracts Payable	160,926.05		13,904.17			174,830.22
Payroll Deductions and Withholdings and Employer Matching Payable	55,625.97		5,065.14			60,691.11
<b>Total Liabilities</b>	<b>240,748.39</b>	<b>1.66</b>	<b>28,411.83</b>			<b>269,161.88</b>
Deferred Inflows of Resources:						
Taxes Levied for a Future Period	533,163.42	443,774.28	243,566.18		125,049.09	1,345,552.97
Unavailable Revenue-Property Taxes	2,338.45	1,062.95	718.93	37.75	436.64	4,594.72
<b>Total Deferred Inflows of Resources</b>	<b>535,501.87</b>	<b>444,837.23</b>	<b>244,285.11</b>	<b>37.75</b>	<b>125,485.73</b>	<b>1,350,147.69</b>
Fund Balances:						
Nonspendable	28,488.00					28,488.00
Restricted		1,370,144.18	725,150.61	222,684.03	88,695.32	2,406,674.14
Assigned	557,601.32					557,601.32
Unassigned	434,694.10					434,694.10
<b>Total Fund Balances</b>	<b>1,020,783.42</b>	<b>1,370,144.18</b>	<b>725,150.61</b>	<b>222,684.03</b>	<b>88,695.32</b>	<b>3,427,457.56</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 1,797,033.68</b>	<b>\$ 1,814,983.07</b>	<b>\$ 997,847.55</b>	<b>\$ 222,721.78</b>	<b>\$ 214,181.05</b>	<b>\$ 5,046,767.13</b>

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

**ARLINGTON SCHOOL DISTRICT NO. 38-1**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

Total Fund Balances - Governmental Funds	\$ 3,427,457.56
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of these assets is:

	\$ 8,489,295.05	
Less accumulated depreciation:	(3,091,211.22)	5,398,083.83

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:

Bonds Payable	(1,105,000.00)	
Capital Outlay Certificates	(425,000.00)	
Accrued Leave Payable	(30,705.10)	
Other Postemployment Benefits	(115,582.00)	(1,676,287.10)

Net Pension Asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.

7,837.00

Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.

846,259.20

Pension and OPEB related deferred inflows are components of pension related liabilities and therefore are not reported in the funds.

(159,774.01)

Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures and therefore are deferred in the funds.

4,594.72

Net Position - Governmental Funds	<u>\$ 7,848,171.20</u>
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The notes to the financial statements are an integral part of this statement.

**ARLINGTON SCHOOL DISTRICT NO. 38-1**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Total Governmental Funds
<b>Revenues:</b>						
Revenue from Local Sources:						
Taxes:						
Ad Valorem Taxes	\$ 1,191,616.02	\$ 993,761.31	\$ 546,900.36	\$	\$ 280,975.81	\$ 3,013,253.50
Prior Years' Ad Valorem Taxes	10,352.55	3,995.76	2,211.94	33.51	1,162.26	17,756.02
Tax Deed Revenue	1,311.30					1,311.30
Utility Taxes	57,288.60					57,288.60
Penalties and Interest on Taxes	2,738.15	1,188.09	658.20	5.77	343.14	4,933.35
Earnings on Investments and Deposits	4,407.79	3,980.41	2,396.68	908.63	319.06	12,012.57
Cocurricular Activities:						
Admissions	17,812.26					17,812.26
Rentals	1,355.00					1,355.00
Other Pupil Activity Income	3,710.00					3,710.00
Other Revenue from Local Sources:						
Rentals	1,295.43					1,295.43
Refund of Prior Years' Expenditures	1,558.97					1,558.97
Charges for Services	792.91		645.28			1,438.19
Other	19,909.18	270.00				20,179.18
Revenue from Intermediate Sources:						
County Sources:						
County Apportionment	13,358.15					13,358.15
Revenue in Lieu of Taxes	5,119.56					5,119.56
Revenue from State Sources:						
Grants-in-Aid:						
Unrestricted Grants-in-Aid	814,638.76					814,638.76
Restricted Grants-in-Aid	1,350.00					1,350.00
Other State Revenue	1,450.00					1,450.00
Revenue from Federal Sources:						
Grants-in-Aid:						
Unrestricted Grants-in-aid Received						
From Federal Government Through						
an Intermediate Source	11,942.55					11,942.55
Restricted Grants-in-Aid Received from						
Federal Government Through State						
Total Revenue	<u>2,230,672.74</u>	<u>49,168.00</u>	<u>552,812.46</u>	<u>947.91</u>	<u>282,800.27</u>	<u>4,119,596.95</u>

**Expenditures:**

## Instruction:

## Regular Programs:

Elementary

Middle/Junior High

High School

## Special Programs:

Programs for Special Education

Programs for Educationally Deprived

## Support Services:

## Pupils:

Guidance

Psychological

Speech Pathology

Student Therapy

## Support Services - Instructional Staff:

Improvement of Instruction

Educational Media

## Support Services - General Administration:

Board of Education

Executive Administration

## Support Services - School Administration:

Office of the Principal

Other

## Support Services - Business:

Fiscal Services

Operation and Maintenance of Plant

Pupil Transportation

Food Services

## Support Services - Special Education:

Transportation Costs

Debt Services

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Total Governmental Funds
	542,913.69	57,868.33				600,782.02
	128,004.68	10,276.79				138,281.47
	536,706.94	161,652.04				698,358.98
			416,845.37			416,845.37
	63,118.76					63,118.76
	52,187.02		381.48			52,568.50
			7,464.96			7,464.96
			15,429.40			15,429.40
			10,720.32			10,720.32
	9,253.14					9,253.14
	130,946.43	2,877.50				133,823.93
	27,175.06		917.31			28,092.37
	127,151.47	250.00				127,401.47
	154,413.43	2,143.00				156,556.43
	2,642.39					2,642.39
	145,502.61	3,290.97				148,793.58
	311,588.22	59,892.36				371,480.58
	98,270.07					98,270.07
	24,001.22					24,001.22
			16,000.00			16,000.00
		84,245.00			282,902.50	367,147.50

**ARLINGTON SCHOOL DISTRICT NO. 38-1**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Total Governmental Funds
Cocurricular Activities:						
Male Activities	44,704.01					44,704.01
Female Activities	43,340.50	21.40				43,361.90
Transportation	10,655.38					10,655.38
Combined Activities	76,054.79	7,876.24				83,931.03
Capital Outlay		135,164.00				135,164.00
Total Expenditures	<u>2,528,629.81</u>	<u>525,557.63</u>	<u>467,758.84</u>		<u>282,902.50</u>	<u>3,804,848.78</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(297,957.07)</u>	<u>526,805.94</u>	<u>85,053.62</u>	<u>947.91</u>	<u>(102.23)</u>	<u>314,748.17</u>
10 Other Financing Sources (Uses):						
Transfers In	132,742.11					132,742.11
Transfers (Out)	<u>(11,157.85)</u>	<u>(132,742.11)</u>				<u>(143,899.96)</u>
Total Other Financing Sources (Uses)	<u>121,584.26</u>	<u>(132,742.11)</u>				<u>(11,157.85)</u>
Net Change in Fund Balances	<u>(176,372.81)</u>	<u>394,063.83</u>	<u>85,053.62</u>	<u>947.91</u>	<u>(102.23)</u>	<u>303,590.32</u>
Beginning Fund Balance - July 1, 2017	<u>1,197,156.23</u>	<u>976,080.35</u>	<u>640,096.99</u>	<u>221,736.12</u>	<u>88,797.55</u>	<u>3,123,867.24</u>
FUND BALANCE - JUNE 30, 2018	<u>\$ 1,020,783.42</u>	<u>\$ 1,370,144.18</u>	<u>\$ 725,150.61</u>	<u>\$ 222,684.03</u>	<u>\$ 88,695.32</u>	<u>\$ 3,427,457.56</u>

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

**ARLINGTON SCHOOL DISTRICT NO. 38-1**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

Net Change in Fund Balances - Total Governmental Funds \$ 303,590.32

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. Depreciation expenditures exceeds capital outlays by this amount.

Capital Outlay	\$ 135,164.00	
Depreciation Expense	<u>(214,630.09)</u>	(79,466.09)

In the Statement of Activities, gains and losses on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized. (1,985.67)

Certain operating expenses reported on the statement of activities are measured by the amounts earned and paid during the year. In the governmental funds however expenditures for these items are the amount of financial resources used. These are the amounts by which these liabilities changed:

Vacation Leave	2,631.58	
OPEB	<u>(11,261.00)</u>	(8,629.42)

Repayment of debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 340,000.00

Changes in pension related deferred outflows/inflows are direct components of pension liability(asset) and are not reflected in the governmental funds. 283,610.25

Governmental funds report property taxes as revenue when they meet the available criteria. Because some property taxes will not be collected for several months after the district's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased (decreased) by this amount this year. 3,243.59

Change in Net Position of Governmental Activities \$ 840,362.98

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

**ARLINGTON SCHOOL DISTRICT NO. 38-1**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2018**

	<u>Enterprise Fund</u>
	<u>Food Service</u>
	<u>Fund</u>
<b>ASSETS:</b>	
Current Assets:	
Cash & Cash Equivalents	\$ 14,123.16
Inventory of Supplies	493.44
Inventory of Stores Purchased for Resale	1,679.09
Inventory of Donated Food	<u>4,874.95</u>
Total Current Assets	<u>21,170.64</u>
Capital Assets:	
Machinery and Equipment	38,068.86
Less: Accumulated Depreciation	<u>(33,538.54)</u>
Total Noncurrent Assets	<u>4,530.32</u>
<b>TOTAL ASSETS</b>	<u><b>25,700.96</b></u>
<b>LIABILITIES:</b>	
Current Liabilities:	
Accounts Payable	26.00
Payroll Deductions and Withholdings	
Employer Matching Payable	30.55
Accrued Leave Payable	<u>5,280.23</u>
Total Current Liabilities	<u>5,336.78</u>
<b>NET POSITION:</b>	
Net Investment in Capital Assets	4,530.32
Unrestricted Net Position	<u>15,833.86</u>
<b>TOTAL NET POSITION</b>	<u><b>\$ 20,364.18</b></u>

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

**ARLINGTON SCHOOL DISTRICT NO. 38-1**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<b>Enterprise Funds</b>		
	<b>Food Service Fund</b>	<b>Other Enterprise Fund</b>	<b>Total</b>
<b>Operating Revenue:</b>			
<b>Sales:</b>			
To Pupils	\$ 81,072.68	\$	\$ 81,072.68
To Adults	4,238.79		4,238.79
Other Charges for Goods & Services	5,046.20	12,412.50	17,458.70
Miscellaneous	3,973.85		3,973.85
<b>Total Operating Revenue</b>	<b>94,331.52</b>	<b>12,412.50</b>	<b>106,744.02</b>
<b>Operating Expenses:</b>			
Salaries	66,228.63	26,691.18	92,919.81
Employee Benefits	6,138.83	6,872.72	13,011.55
Purchased Services	4,525.02	726.95	5,251.97
Supplies	2,539.45	557.50	3,096.95
Cost of Sales-Purchased Food	46,021.96		46,021.96
Cost of Sales-Donated Food	12,919.18		12,919.18
Other		500.00	500.00
Depreciation-Local Funds	3,106.33		3,106.33
<b>Total Operating Expenses</b>	<b>141,479.40</b>	<b>35,348.35</b>	<b>176,827.75</b>
<b>Operating Income (Loss)</b>	<b>(47,147.88)</b>	<b>(22,935.85)</b>	<b>(70,083.73)</b>
<b>Nonoperating Revenue (Expense):</b>			
<b>Local Sources:</b>			
Investment Earnings	34.05		34.05
<b>State Sources:</b>			
State Reimbursements	508.87		508.87
<b>Federal Sources:</b>			
<b>Other Grants:</b>			
Cash Reimbursements	31,987.63	11,778.00	43,765.63
Donated Food	13,533.31		13,533.31
<b>Total Nonoperating Revenue (Expense)</b>	<b>46,063.86</b>	<b>11,778.00</b>	<b>57,841.86</b>
<b>Income (Loss) Before Transfers</b>	<b>(1,084.02)</b>	<b>(11,157.85)</b>	<b>(12,241.87)</b>
<b>Transfers In</b>		<b>11,157.85</b>	<b>11,157.85</b>
<b>Change in Net Position</b>	<b>(1,084.02)</b>	<b>0.00</b>	<b>(1,084.02)</b>
<b>Net Position - Beginning</b>	<b>21,448.20</b>	<b>0.00</b>	<b>21,448.20</b>
<b>NET POSITION - ENDING</b>	<b>\$ 20,364.18</b>	<b>\$ 0.00</b>	<b>\$ 20,364.18</b>

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



**ARLINGTON SCHOOL DISTRICT NO. 38-1**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<b>Enterprise Funds</b>		
	<b>Food Service Fund</b>	<b>Other Enterprise Fund</b>	<b>Total</b>
<b>Cash Flows from Operating Activities:</b>			
Receipts from Customers	\$ 94,331.52	\$ 12,412.50	\$ 106,744.02
Payments to Suppliers	(53,134.46)	(1,784.45)	(54,918.91)
Payments to Employees	(74,110.19)	(33,563.90)	(107,674.09)
Net Cash Provided (Used) by Operating Activities	<u>(32,913.13)</u>	<u>(22,935.85)</u>	<u>(55,848.98)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Transfers In		11,157.85	11,157.85
Operating Subsidies	32,496.50	11,778.00	44,274.50
Net Cash Provided (Used) by Noncapital Financing Activities	<u>32,496.50</u>	<u>22,935.85</u>	<u>55,432.35</u>
<b>Cash Flows from Investing Activities</b>			
Investment Earnings	34.05		34.05
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (382.58)</u>	<u>\$ (0.00)</u>	<u>\$ (382.58)</u>
Cash and Cash Equivalents at Beginning of Year	\$ 14,505.74	\$	\$ 14,505.74
Cash and Cash Equivalents at End of Year	<u>14,123.16</u>		<u>14,123.16</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (382.58)</u>	<u>\$</u>	<u>\$ (382.58)</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating Income (Loss)	\$ (47,147.88)	\$ (22,935.85)	\$ (70,083.73)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	3,106.33		3,106.33
Value of Commodities Used	12,919.18		12,919.18
Change in Assets and Liabilities:			
Inventories	283.11		283.11
Accounts Payable	(331.14)		(331.14)
Accrued Wages Payable	(408.53)		(408.53)
Accrued Leave Payable	<u>(1,334.20)</u>		<u>(1,334.20)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (32,913.13)</u>	<u>\$ (22,935.85)</u>	<u>\$ (55,848.98)</u>
<b>Noncash Investing, Capital and Financing Activities:</b>			
Value of Commodities Received	\$ 13,533.31		

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

**ARLINGTON SCHOOL DISTRICT NO. 38-1**  
**STATEMENT OF NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2018**

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS:</b>		
Cash and Cash Equivalents	\$	\$ 46,328.97
Investments-CD	58,064.38	
Interest Receivable	<u>96.01</u>	<u></u>
<b>TOTAL ASSETS</b>	<u>58,160.39</u>	<u>46,328.97</u>
<b>LIABILITIES:</b>		
Amounts Held for Others	<u></u>	<u>46,328.97</u>
<b>Total Liabilities</b>	<u></u>	<u>\$ 46,328.97</u>
<b>NET POSITION</b>		
Held in Trust for Scholarships	<u>58,160.39</u>	
<b>TOTAL NET POSITION</b>	<u>\$ 58,160.39</u>	

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

**ARLINGTON SCHOOL DISTRICT NO. 38-1  
STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018**

	<b><u>Private Purpose Trust Funds</u></b>
<b>ADDITIONS:</b>	
Other Additions	\$ 329.05
Total Additions	<u>329.05</u>
<b>DEDUCTIONS:</b>	
Other Deductions	<u>          </u>
Total Deductions	<u>          </u>
Change in Net Position	329.05
Net Position - Beginning	<u>57,831.34</u>
<b>NET POSITION - ENDING</b>	<b><u>\$58,160.39</u></b>

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

ARLINGTON SCHOOL DISTRICT NO. 38-1  
NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**a. Financial Reporting Entity**

The reporting entity of Arlington School District No. 38-1, 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 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 District and for each function of the 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 the recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:*

Fund financial statements of the 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 and deferred outflows, liabilities and deferred inflows, 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 and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 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 Funds - 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 School District. This fund is financed by grants and property taxes. This is a major fund.

Pension Fund - A fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts, which have established such systems, paying the School 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 Funds – Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.*

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

#### **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 unity – 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.

**Other Enterprise Fund** - A fund used to record financial transactions related to driver’s education instruction and preschool. This fund is financed by user charges. This is a major fund.

### **Fiduciary Funds:**

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

*Private-Purpose Trust Funds - 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 a private-purpose trust fund for scholarships.*

*Agency Funds - 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: class funds, student organizations, clearing accounts, and student council funds.*

### **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.

### **Measurement Focus:**

#### *Government-wide Financial Statements:*

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

#### *Fund Financial Statements:*

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

## **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 fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Arlington School District No. 38-1, the length of that cycle is 60 days. The revenues that were accrued at June 30, 2018 are amounts due from other governments for grants and utility taxes.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectable 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 fund and fiduciary fund types 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.

#### **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 Financial Statements*

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant, and which extend the useful life of a capital asset are also capitalized.

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction-period interest is capitalized in accordance with USGAAP.

The total June 30, 2018 balance of capital assets for governmental activities includes approximately .29 percent for which the costs were determined by estimates of the original costs. The total June 30, 2018 balance of capital assets for business-type activities are all valued at original cost.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	All	NA	NA
Improvements	\$ 15,000.00	Straight Line	10-25 yrs
Buildings	25,000.00	Straight Line	33-50 yrs
Machinery and Equipment	5,000.00	Straight Line	5-20 yrs
Food Service Machinery and Equipment	1,000.00	Straight Line	5-20 yrs

Land is an inexhaustible capital asset and is not depreciated.

## *Fund Financial Statements*

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

### 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 or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of compensated absences, other post-employment benefits payable, and capital outlay certificates payable.

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 School District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

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

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 or expenses.

i. Cash and Cash Equivalents:

The School District pools its cash resources for depositing and investing purposes. Accordingly, the enterprise funds have access to their 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. 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.

k. Equity Classifications:

*Government-wide Financial 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.

I. Application of Net Position:

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

m. 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:

1. Nonspendable – includes fund balance amounts that cannot be spent because it is not in spendable form or because of legal or contractual constraints.
2. Restricted – includes fund balance amounts that are constrained for a specific purpose which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
3. 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.
4. Assigned – includes fund balance amounts that are intended to be used for a specific purpose that are neither considered restricted nor committed. Fund Balance may be assigned by the School Board.
5. Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative 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 district would first use *committed*, then *assigned*, and lastly, *unassigned* amounts of unrestricted fund balance when expenditures are made.

The School District has not adopted a formal minimum fund balance policy.

A schedule of fund balances is provided as follows:

**ARLINGTON SCHOOL DISTRICT NO. 38-1  
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET  
GOVERNMENTAL FUNDS**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>Bond Redemption Fund</u>	<u>Total Governmental Funds</u>
<b>Fund Balances:</b>						
<i>Nonspendable:</i>						
Prepaid expenses	\$ 4,822.00	\$	\$	\$	\$	\$ 4,822.00
Deposits	23,666.00					23,666.00
<i>Restricted for:</i>						
Capital Outlay		1,370,144.18				1,370,144.18
Special Education			725,150.61			725,150.61
Pension				222,684.03		222,684.03
Debt Service					88,695.32	88,695.32
<i>Assigned</i>						
Subsequent Year's Budget	516,327.00					516,327.00
Unemployment	41,274.32					41,274.32
<i>Unassigned</i>	434,694.10					434,694.10
<b>Total Fund Balances</b>	<u>\$ 1,020,783.42</u>	<u>\$ 1,370,144.18</u>	<u>\$ 725,150.61</u>	<u>\$ 222,684.03</u>	<u>\$ 88,695.32</u>	<u>\$ 3,427,457.56</u>

**n. 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.

**NOTE 2 – DEPOSITS AND INVESTMENTS FAIR VALUE MEASUREMENT, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK**

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

**Deposits** – The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 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.

**Investments** – In general, SDCL 4-5-6 permits school funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires 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, 2018, 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.

**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 fund making the investment.

### NOTE 3 – 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 and no allowance has been provided for uncollectible amounts.

### NOTE 4 – INVENTORY

Inventory for resale is stated at the lower of cost or market. The cost valuation method is the first in, first out method. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

In the government-wide and proprietary fund financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the fund financial statements, inventories in the General Fund and Special Revenue Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. No material inventories were on hand at June 30, 2018 in the governmental funds.

### NOTE 5 – PROPERTY TAXES

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, and become due and payable 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 revenue 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".

#### NOTE 6 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2018 is as follows:

<i>Primary Government</i>	Balance 06/30/17	Increases	Decreases	Balance 06/30/18
Governmental Activities:				
Capital Assets, not depreciated:				
Land	\$ 37,132.50	\$	\$	\$ 37,132.50
Total Capital Assets, not depreciated	37,132.50			37,132.50
Capital Assets, depreciated:				
Buildings	6,669,128.38	108,615.00		6,777,743.38
Improvements	560,152.71			560,152.71
Machinery and Equipment	1,076,687.46	26,549.00	(13,970.00)	1,089,266.46
Library Books	25,000.00			25,000.00
Totals	8,330,968.55	135,164.00	(13,970.00)	8,452,162.55
Less Accumulated Depreciation:				
Buildings	2,079,614.06	124,342.81		2,203,956.87
Improvements	149,725.65	24,007.89		173,733.54
Machinery and Equipment	640,114.75	65,029.39	(11,984.33)	693,159.81
Library Books	19,111.00	1,250.00		20,361.00
Total Accumulated Depreciation	2,888,565.46	214,630.09	(11,984.33)	3,091,211.22
Total Capital Assets, being depreciated, net	5,442,403.09	(79,466.09)	(1,985.67)	5,360,951.33
Governmental activities capital assets, net	\$ 5,479,535.59	\$ (79,466.09)	\$ (1,985.67)	\$ 5,398,083.83

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Instruction	\$ 42,031.49
Support Services	113,473.07
Co-curricular Activities	59,125.53
Total Depreciation expense-governmental activities	\$ 214,630.09

Business-type activities:	Balance 06/30/17	Increases	Decreases	Balance 06/30/18
Capital Assets, depreciated:				
Machinery and Equipment	\$ 39,981.98	\$	\$ (1,913.12)	\$ 38,068.86
Less Accumulated Depreciation:				
Machinery and Equipment	<u>32,345.33</u>	<u>3,106.33</u>	<u>(1,913.12)</u>	<u>33,538.54</u>
Business-type activity capital assets, net	<u>\$ 7,636.65</u>	<u>\$ (3,106.33)</u>	<u>\$</u>	<u>\$ 4,530.32</u>
Depreciation expense was charged to functions as follows:				
Business-type Activity				
Food Service		<u>\$ 3,106.33</u>		

## **NOTE 7 – LONG -TERM LIABILITIES**

A summary of changes in long-term liabilities for the year ended June 30, 2018 is as follows:

	Beginning Balance 6/30/17	Additions	Deletions	Ending Balance 6/30/18	Due Within One Year
Governmental Activities:					
General Obligation Bonds	\$ 1,370,000.00	\$	\$ (265,000.00)	\$ 1,105,000.00	\$ 270,000.00
Capital Outlay Certificates	500,000.00		(75,000.00)	425,000.00	80,000.00
Accrued Compensated					
Absences	33,336.68	21,786.71	(24,418.29)	30,705.10	15,352.55
OPEB	75,037.00	40,545.00		115,582.00	
SDRS Pension Liability	<u>294,144.31</u>		<u>(294,144.31)</u>		
Total Governmental Activities	<u>\$ 2,272,517.99</u>	<u>\$ 62,331.71</u>	<u>\$ (658,562.60)</u>	<u>\$ 1,676,287.10</u>	<u>\$ 365,352.55</u>

Compensated absences for governmental activities and OPEB typically have been liquidated from the General Fund.

Liabilities payable at June 30, 2018 are comprised of the following:

### **Governmental Activities**

#### **General Obligation Refunding Bonds:**

Series 2016, maturity dates - July, 2016 to July 2022, interest rates from .80%(with a set annual increase ranging from .05 to .20) to a maximum of 1.60%, payments made from Debt Service Fund.

\$ 1,105,000.00

#### **Capital Outlay Certificates:**

Series 2012 Refunding Certificates, maturity dates - July, 2014 to July, 2023, interest rates from .60% (with a set annual increase ranging from .10 to .30) to a maximum of 2.30%, payments made from Capital Outlay Fund.

425,000.00

**Other Postemployment Benefits:**

Obligation to individuals who are retired or will retire from the School District and will receive postemployment benefits. Payments are made from the General Fund.

115,582.00

**Compensated Absences:**

Represents annual leave benefits earned by employees as of June 30, 2016. These benefits are paid from the General Fund

30,705.10

The annual debt service requirements to maturity, except for compensated absences and postemployment benefits, for all debt outstanding as of June 30, 2018 are as follows:

Year End June 30,	G.O. Bonds Payable		C.O. Certificates		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 270,000	\$ 15,085	\$ 80,000	\$ 8,120	\$ 350,000	\$ 23,205
2020	275,000	12,115	85,000	7,000	360,000	19,115
2021	280,000	8,540	85,000	5,555	365,000	14,095
2022	280,000	4,480	85,000	3,898	365,000	8,378
2023			90,000	2,070	90,000	2,070
Totals	<u>\$ 1,105,000</u>	<u>\$ 40,220</u>	<u>\$ 425,000</u>	<u>\$ 26,643</u>	<u>\$ 1,530,000</u>	<u>\$ 66,863</u>

**NOTE 8 – RESTRICTED NET POSITION**

Restricted Net Position for the year ended June 30, 2018 was as follows:

<u>Major Purposes</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay Purposes	Law	\$ 1,371,207.13
Special Education Purposes	Law	725,869.54
Pension Purposes	Law	222,721.78
Debt Service Purposes	Debt Covenants	89,131.96
SDRS Pension Purposes	Law	701,367.19
Total Restricted Net Position		<u>\$ 3,110,297.60</u>

**NOTE 9 – INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2018 were as follows:

<u>Transfer From:</u>	<u>Transfer To :</u>		
	<u>General Fund</u>	<u>Other Enterprise Fund</u>	<u>Total</u>
General Fund	\$	\$ 11,157.85	\$ 11,157.85
Capital Outlay	132,742.11		132,742.11
	<u>\$ 132,742.11</u>	<u>\$ 11,157.85</u>	<u>\$ 143,899.96</u>

The General Fund transferred monies to the Other Enterprise Fund for support of operations. Additionally, a transfer of \$132,742.11 was made to the General Fund from Capital Outlay to cover insurance, utility, and fuel expenses.

## NOTE 10 – PENSION PLAN

### **Plan Information:**

All employees, working more than 20 hours per week during the school 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 survivors' 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/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

### **Benefits Provided:**

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

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

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

The 2017 legislation modified the COLA, effective for the July 1, 2018 increase:

- 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 3<sup>rd</sup> 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 3<sup>rd</sup> 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. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2018, 2017, and 2016 were \$107,960, \$105,276, and \$99,348, 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, 2017, SDRS is 100.1% 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 June 30, 2018 are as follows:

Proportionate share of pension liability	\$ 10,047,628.70
Less proportionate share of net pension restricted for pension benefits	<u>10,055,465.70</u>
Proportionate share of net pension asset	<u><u>\$ (7,837.00)</u></u>

At June 30, 2018, the School District reported a liability (asset) of \$(7,837.00) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2017 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2017, the School District's proportion was .08635720%, which is an increase (decrease) of (.0007218%) from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School District recognized pension expense (reduction of expense) of \$(283,610.25). At June 30, 2018 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 125,570.37	\$
Changes in assumption	608,494.71	
Net difference between projected and actual earnings on pension plan investments		150,674.20
Changes in proportion and difference between District contributions and proportionate share of contributions	4,233.88	2,054.81
District contributions subsequent to the measurement date	<u>107,960.24</u>	
TOTAL	<u><u>\$ 846,259.20</u></u>	<u><u>\$ 152,729.01</u></u>

\$107,960.24 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, 2019. 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:		
2019	\$	158,231.54
2020		265,635.55
2021		195,308.28
2022		(35,784.48)
TOTAL	\$	<u>583,390.89</u>

**Actuarial Assumptions:**

The total pension liability (asset) in the June 30, 2017 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%
Investment Rate of Return	6.50% net of plan investment expense

Mortality rates were based on 97% of the RP-2014 Mortality Table, projected generationally with Scale MP-2016, while 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.

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:

<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	<u>2.0%</u>	0.7%
Total	<u>100.0%</u>	

**Discount Rate:**

The discount rate used to measure the total pension liability (asset) was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from 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'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%</u> <u>Decrease</u>	<u>Current</u> <u>Discount</u> <u>Rate</u>	<u>1%</u> <u>Increase</u>
School District's proportionate share of the net pension liability (asset)	\$ 1,435,346.09	\$ (7,837.00)	\$ (1,183,057.36)

**Pension Plan Fiduciary Net Position:**

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

**NOTE 11 – POST-EMPLOYMENT MEDICAL PLAN**

*Plan Description:* Arlington School District has a pooled defined benefit medical plan administered by either the Sanford Health Plan or DakotaCare. The Plan provides medical and prescription drug insurance benefits to eligible retirees and their spouses. After eligibility for retiree benefits is established, retirees must pay premiums until they are eligible for Medicare. SDCL 6-1-16 specifically allows any school district to provide health insurance for retiring employees and their immediate families. The liability exists because of an implicit subsidy of costs of the benefits to retirees of the district. The Plan issues a publicly available actuarial report that includes required supplementary information. That report may be obtained by writing to the Arlington School District, 306 South Main, Arlington, SD 57212 or by calling 1 (605) 983-5597.

*Funding Policy:* The district funds the postemployment benefits on a pay-as-you-go basis. Because the district does not use a trust fund to administer the financing of other postemployment benefits, no separate financial statements are required.

*Employees covered by benefit terms:* At June 30, 2018, the following employees were covered by the benefit terms:

Retirees currently receiving benefit payments	n/a
Active employees	<u>42</u>
	42

*Actuarial Methods and Assumptions:* Where consistent with the terms of the plan, actuarial assumptions have utilized the assumption for the South Dakota Retirement System (SDRS) as provided in the June 30, 2017 Actuarial Valuation Report. See Note 10 – Pension Plan.

**Changes in the Total OPEB Liability:**

Beginning of Year Balances	\$ 111,366
Service Cost	11,332
Interest	3,460
Effect of assumptions changes or inputs	(7,959)
Benefit payments	(2,617)
End of Year Balances	<u>\$ 115,582</u>

**Sensitivity of liability (asset) to changes in the discount rate:**

The following presents the total OPEB liability of the District calculated using a discount rate that is 1 percentage point lower and 1 percentage point higher than the current rate of 3.58%:

	1% <u>Decrease</u>	Current Discount <u>Rate</u>	1% <u>Increase</u>
Total OPEB Liability	\$ 126,601.00	\$ 115,582.00	\$ 105,432.00

For the year ended June 30, 2018, the School District recognized OPEB expense of \$13,878. At June 30, 2018 the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumption	\$	\$ 7,045.00

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense (revenue) as follows:

Year Ended June 30:	
2019	\$ (914.00)
2020	(914.00)
2021	(914.00)
2022	(914.00)
2023	(914.00)
Thereafter	(2,475.00)
TOTAL	<u>\$ (7,045.00)</u>

**NOTE 12 – JOINT VENTURES**

The school district participates in the Northeast Educational Services Cooperative, a cooperative service unit (co-op) formed for the purpose of providing public support services to the member school districts.

The members of the co-op and their relative percentage participation in the co-op are as follows:

<b>Arlington</b>	<b>3.67%</b>	<b>Hamlin</b>	<b>10.46%</b>
<b>Britton-Hecia</b>	<b>5.75%</b>	<b>Henry</b>	<b>2.32%</b>
<b>Castlewood</b>	<b>3.85%</b>	<b>Iroquois</b>	<b>3.25%</b>
<b>Clark</b>	<b>4.90%</b>	<b>Lake Preston</b>	<b>2.01%</b>
<b>DeSmet</b>	<b>4.28%</b>	<b>Rosholt</b>	<b>3.19%</b>
<b>Deubrook</b>	<b>4.74%</b>	<b>Sioux Valley</b>	<b>9.36%</b>
<b>Deuel</b>	<b>6.75%</b>	<b>Summit</b>	<b>1.97%</b>
<b>Elkton</b>	<b>4.93%</b>	<b>Waubay</b>	<b>2.22%</b>
<b>Enemy Swim</b>	<b>2.42%</b>	<b>Waverly/South Shore</b>	<b>3.35%</b>
<b>Estelline</b>	<b>3.72%</b>	<b>Webster</b>	<b>7.62%</b>
<b>Florence</b>	<b>3.42%</b>	<b>Willow Lake</b>	<b>3.08%</b>
<b>Grant-Deuel</b>	<b>0.00%</b>	<b>Wilmot</b>	<b>2.74%</b>

The co-op's governing board is composed of one school board member representative from each member school district. The board is responsible for adopting the co-op's budget and setting service fees at a level adequate to fund the adopted budget. The school district retains no equity 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 Northeast Area Cooperative.

At June 30, 2018, this joint venture had total assets of \$9,562,573.12, total liabilities of \$2,220,144.28, and net position of \$7,342,428.84.

#### **NOTE 13 – 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, 2018, the School District managed its risks as follows:

##### **Employee Health Insurance**

The School District joined the Northern Plains Insurance Pool. This is a risk pool currently operating as a common risk management and insurance program for local government entities. The school District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases coverage from either Sanford Health Plan or DAKOTACARE Administrative Services with the premiums it receives from the members.

The coverage includes the option of three different plans with a deductible from \$2,000.00 to \$4,000.00.

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 risk related to torts; theft 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 purchases liability insurance for workmen's compensation from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

### Unemployment Benefits

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

The School District has an Assigned Fund Balance in the General Fund in the amount of \$41,274.32 for the payment of future unemployment benefits.

During the year ended June 30, 2018, no claims for unemployment benefits were paid. At June 30, 2018, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

### NOTE 14 – SIGNIFICANT CONTINGENCIES - LITIGATION

At June 30, 2018, the school district was not involved in any litigation.

### NOTE 15 – PRIOR PERIOD ADJUSTMENT

The School District implemented GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions-An Amendment of GASB Statement No. 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. As a result, beginning net OPEB obligation has been restated to reflect adjustment necessary to transition from GASB 45 to GASB 75 as of July 1, 2017 as follows:

Net Position June 30, 2017, as previously reported	\$ 7,044,137.22
Restatement for OPEB obligation:	
Prior Period Adjustment	<u>(36,329.00)</u>
Net Position July 1, 2017, as restated	<u>\$ 7,007,808.22</u>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**ARLINGTON SCHOOL DISTRICT NO. 38-1**  
**BUDGETARY COMPARISON SCHEDULE- BUDGETARY BASIS**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 1,189,630.00	\$ 1,189,630.00	\$ 1,191,616.02	\$ 1,986.02
Prior Years' Ad Valorem Taxes	3,000.00	3,000.00	10,352.55	7,352.55
Tax Deed Revenue			1,311.30	1,311.30
Utility Taxes	40,000.00	40,000.00	57,288.60	17,288.60
Penalties and Interest on Taxes	1,500.00	1,500.00	2,738.15	1,238.15
Earnings on Investments and Deposits	2,325.00	2,325.00	4,407.79	2,082.79
Cocurricular Activities:				
Admissions	20,000.00	20,000.00	17,812.26	(2,187.74)
Rentals			1,355.00	1,355.00
Other Pupil Activity Income	4,500.00	4,500.00	3,710.00	(790.00)
Other Revenue from Local Sources:				
Rentals	200.00	200.00	1,295.43	1,095.43
Contributions and Donations			1,558.97	1,558.97
Refund of Prior Years' Expenditures			792.91	(207.09)
Charges for Services	1,000.00	1,000.00	19,909.18	1,909.18
Other	18,000.00	18,000.00		
Revenue from Intermediate Sources:				
County Sources:				
County Apportionment	14,000.00	14,000.00	13,358.15	(641.85)
Revenue in Lieu of Taxes	1,500.00	1,500.00	5,119.56	3,619.56
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	895,526.00	907,588.00	814,638.76	(92,949.24)
Restricted Grants-in-Aid			1,350.00	1,350.00
Other State Revenue	500.00	500.00	1,450.00	950.00
Revenue from Federal Sources:				
Unrestricted Grants-in-Aid				
Received from Federal Government				
Through Intermediate Source	4,000.00	4,000.00	11,942.55	7,942.55
Restricted Grants-in-Aid Received from				
Federal Government Through State	75,429.00	96,524.00	68,665.56	(27,858.44)
Total Revenue	<u>2,271,110.00</u>	<u>2,304,267.00</u>	<u>2,230,672.74</u>	<u>(73,594.26)</u>
<b>Expenditures:</b>				
Instruction:				
Regular Programs:				
Elementary School	561,300.00	561,300.00	542,913.69	18,386.31
Middle/Junior High	137,525.00	138,025.00	128,004.68	10,020.32
High School	546,395.00	567,647.00	536,706.94	30,940.06
Special Programs:				
Educationally Deprived	67,850.00	67,850.00	63,118.76	4,731.24

**REQUIRED SUPPLEMENTARY INFORMATION**  
**ARLINGTON SCHOOL DISTRICT NO. 38-1**  
**BUDGETARY COMPARISON SCHEDULE- BUDGETARY BASIS**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Support Services:				
Pupils:				
Guidance	54,875.00	54,875.00	52,187.02	2,687.98
Support Services - Instructional Staff:				
Improvement of Instruction	14,350.00	17,200.00	9,253.14	7,946.86
Educational Media	143,350.00	145,625.00	130,946.43	14,678.57
Support Services - General Administration:				
Board of Education	34,300.00	35,800.00	27,175.06	8,624.94
Executive Administration	132,500.00	132,500.00	127,151.47	5,348.53
Support Services - School Administration:				
Office of the Principal	173,050.00	173,550.00	154,413.43	19,136.57
Other	4,525.00	4,525.00	2,642.39	1,882.61
Support Services - Business:				
Fiscal Services	153,950.00	154,350.00	145,502.61	8,847.39
Operation and Maintenance of Plant	384,000.00	384,315.00	311,588.22	72,726.78
Pupil Transportation	115,875.00	115,875.00	98,270.07	17,604.93
Food Service	29,200.00	29,200.00	24,001.22	5,198.78
Cocurricular Activities:				
Male Activities	71,375.00	73,475.00	44,704.01	28,770.99
Female Activities	55,550.00	55,650.00	43,340.50	12,309.50
Transportation	9,950.00	11,200.00	10,655.38	544.62
Combined Activities	91,800.00	92,300.00	76,054.79	16,245.21
Contingency	50,000.00	50,000.00		50,000.00
Total Expenditures	<u>2,831,720.00</u>	<u>2,865,262.00</u>	<u>2,528,629.81</u>	<u>336,632.19</u>
Excess of Revenue Over (Under)				
Expenditures	<u>(560,610.00)</u>	<u>(560,995.00)</u>	<u>(297,957.07)</u>	<u>263,037.93</u>
Other Financing Sources/(Uses):				
Transfers In	160,000.00	160,000.00	132,742.11	(27,257.89)
Transfers (Out)		<u>(11,157.85)</u>	<u>(11,157.85)</u>	
Total Other Financing Sources (Uses)	<u>160,000.00</u>	<u>148,842.15</u>	<u>121,584.26</u>	<u>(27,257.89)</u>
Net Change in Fund Balances	<u>(400,610.00)</u>	<u>(412,152.85)</u>	<u>(176,372.81)</u>	<u>235,780.04</u>
Beginning Fund Balance - July 1, 2017	<u>1,197,156.23</u>	<u>1,197,156.23</u>	<u>1,197,156.23</u>	
FUND BALANCE - JUNE 30, 2018	<u>\$ 796,546.23</u>	<u>\$ 785,003.38</u>	<u>\$ 1,020,783.42</u>	<u>\$ 235,780.04</u>



**REQUIRED SUPPLEMENTARY INFORMATION**  
**ARLINGTON SCHOOL DISTRICT NO. 38-1**  
**BUDGETARY COMPARISON SCHEDULE-BUDGETARY BASIS**  
**CAPITAL OUTLAY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Variance</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 994,266.00	\$ 995,252.00	\$ 993,761.31	\$ (1,490.69)
Prior Years' Ad Valorem Taxes	1,000.00	1,000.00	3,995.76	2,995.76
Penalties and Interest on Taxes	600.00	600.00	1,188.09	588.09
Earnings on Investments and Deposits	525.00	525.00	3,980.41	3,455.41
Other			270.00	270.00
Revenue from Federal Sources:				
Restricted Grants-in-Aid Received from Federal Government through the State		49,168.00	49,168.00	
<b>Total Revenue</b>	<u>996,391.00</u>	<u>1,046,545.00</u>	<u>1,052,363.57</u>	<u>5,818.57</u>
<b>Expenditures:</b>				
Instruction:				
Regular Programs:				
Elementary	67,500.00	90,500.00	57,868.33	32,631.67
Middle/Junior High	12,500.00	16,000.00	10,276.79	5,723.21
High School	166,500.00	193,981.00	161,652.04	32,328.96
Support Services - Instructional Staff:				
Educational Media	4,100.00	4,150.00	2,877.50	1,272.50
Support Services - General Administration:				
Executive Administration	1,800.00	1,800.00	250.00	1,550.00
Support Services - School Administration:				
Office of the Principal	4,500.00	5,700.00	2,143.00	3,557.00
Support Services - Business:				
Fiscal Services	6,700.00	6,750.00	3,290.97	3,459.03
Facilities Acquisition and Construction				
Operation and Maintenance of Plant	482,791.00	504,891.00	185,656.36	319,234.64
Food Services	200.00	200.00		200.00
Debt Services	84,500.00	84,500.00	84,245.00	255.00
Cocurricular Activities:				
Male Activities	4,000.00	4,600.00	4,293.90	306.10
Female Activities		4,800.00	4,721.40	78.60
Combined Activities	1,300.00	8,300.00	8,282.34	17.66
<b>Total Expenditures</b>	<u>836,391.00</u>	<u>926,172.00</u>	<u>525,557.63</u>	<u>400,614.37</u>
Excess of Revenue Over (Under)				
Expenditures	<u>160,000.00</u>	<u>120,373.00</u>	<u>526,805.94</u>	<u>406,432.94</u>
Other Financing Sources/(Uses):				
Transfers Out	<u>(160,000.00)</u>	<u>(160,000.00)</u>	<u>(132,742.11)</u>	<u>27,257.89</u>
<b>Net Change in Fund Balance</b>		<u>(39,627.00)</u>	<u>394,063.83</u>	<u>433,690.83</u>
<b>Beginning Fund Balance - July 1, 2017</b>	<u>976,080.35</u>	<u>976,080.35</u>	<u>976,080.35</u>	
<b>FUND BALANCE - JUNE 30, 2018</b>	<u>\$ 976,080.35</u>	<u>\$ 936,453.35</u>	<u>\$ 1,370,144.18</u>	<u>\$ 433,690.83</u>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**ARLINGTON SCHOOL DISTRICT NO. 38-1**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**SPECIAL EDUCATION FUND**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 473,365.00	\$ 473,365.00	\$546,900.36	\$ 73,535.36
Prior Years' Ad Valorem Taxes			2,211.94	2,211.94
Penalties and Interest on Taxes			658.20	658.20
Earnings on Investments and Deposits		1,400.00	2,396.68	996.68
Other Revenue from Local Sources:				
Charges for Services	11,316.00	11,316.00	645.28	(10,670.72)
<b>Total Revenue</b>	<b>484,681.00</b>	<b>486,081.00</b>	<b>552,812.46</b>	<b>66,731.46</b>
<b>Expenditures:</b>				
Special Programs:				
Programs for Special Education	423,465.00	459,965.00	416,845.37	43,119.63
Support Services-Pupils:				
Guidance	450.00	450.00	381.48	68.52
Psychological	8,000.00	8,000.00	7,464.96	535.04
Speech Pathology	15,500.00	15,500.00	15,429.40	70.60
Student Therapy	12,000.00	12,000.00	10,720.32	1,279.68
Support Services - General Administration:				
Board of Education	1,318.00	1,318.00	917.31	400.69
Support Services - Special Education:				
Transportation Costs	23,948.00	23,948.00	16,000.00	7,948.00
<b>Total Expenditures</b>	<b>484,681.00</b>	<b>521,181.00</b>	<b>467,758.84</b>	<b>53,422.16</b>
<b>Net Change in Fund Balance</b>		<b>(35,100.00)</b>	<b>85,053.62</b>	<b>120,153.62</b>
<b>Beginning Fund Balance - July 1, 2017</b>	<b>640,096.99</b>	<b>640,096.99</b>	<b>640,096.99</b>	
<b>FUND BALANCE - JUNE 30, 2018</b>	<b>\$ 640,096.99</b>	<b>\$ 604,996.99</b>	<b>\$725,150.61</b>	<b>\$ 120,153.62</b>

**REQUIRED SUPPLEMENTARY INFORMATION  
ARLINGTON SCHOOL DISTRICT NO. 38-1  
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY  
JUNE 30, 2018**

**TOTAL OPEB LIABILITY**

Service Cost	\$ 11,332
Interest on Total OPEB Liability	3,460
Effect of assumption changes or inputs	(7,959)
Benefit payments	<u>(2,617)</u>
Net change in total OPEB liability	4,216
Total OPEB liability, beginning	<u>111,366</u>
Total OPEB liability, ending	<u><u>\$ 115,582</u></u>

**Schedule of Required Supplementary Information**  
**ARLINGTON SCHOOL DISTRICT NO. 38-1**  
**SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION**  
**LIABILITY (ASSET)**  
**South Dakota Retirement System**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
District's proportion of the net pension liability (asset)	0.0879398%	0.0862921%	0.0870790%	0.0863572%
District's proportionate share of net pension liability (asset)	\$ (633,570)	\$ (365,989)	\$ 294,144	\$ (7,837)
District's covered-employee payroll	\$ 1,533,279	\$ 1,572,999	\$ 1,650,943	\$ 1,754,608
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-41.32%	-23.27%	17.82%	-0.45%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107.3%	104.1%	96.9%	100.1%

\* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30 of the previous fiscal year

**Schedule of Required Supplementary Information**

**ARLINGTON SCHOOL DISTRICT NO. 38-1**

**SCHEDULE OF THE SCHOOL DISTRICT CONTRIBUTIONS**

**South Dakota Retirement System**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$ <u>92,270</u>	\$ <u>94,527</u>	\$ <u>99,348</u>	\$ <u>105,276</u>	\$ <u>107,960</u>
Contributions in relation to the contractually required contribution	\$ <u>92,270</u>	\$ <u>94,527</u>	\$ <u>99,348</u>	\$ <u>105,276</u>	\$ <u>107,960</u>
Contribution deficiency (excess)	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
District's covered-employee payroll	\$1,533,279	\$1,572,999	\$1,650,943	\$1,754,608	\$1,799,338
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%	6.00%

ARLINGTON SCHOOL DISTRICT NO. 38-1  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
Schedules of Budgetary Comparisons for the General Fund  
and for each major Special Revenue Fund with a legally required budget

**NOTE 1 - BUDGET 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 board meeting in May of each year the 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 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 board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.
6. After adoption by the board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the board to any other budget category, except for capital outlay, that is deemed insufficient during the year. No amount of expenditures may be charged directly to the contingency line item in the budget.
8. If it is determined, during the year, that sufficient amounts have not been budgeted, state statute allows the 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 board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and each major Special Revenue Fund.
11. Budgets for the General Fund and each major Special Revenue Fund 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/Pupil Transportation function of government, along with all other current Pupil Transportation related expenditures.

# QUAM, BERGLIN & POST, P.C.

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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  
Arlington School District No. 38-1  
Kingsbury 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 Arlington School District No. 38-1, Kingsbury County, South Dakota, as of June 30, 2018 and for the year then ended, and the related notes to the financial statements, which collectively comprise Arlington School District's basic financial statements and have issued our report thereon dated January 29, 2019.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Arlington 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 Arlington School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Arlington School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Arlington School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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*.

## **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 Arlington 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.



Quam, Berglin & Post, P.C.  
Certified Public Accountants

January 29, 2019



**ARLINGTON SCHOOL DISTRICT NO. 38-1  
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS  
JUNE 30, 2018**

**PRIOR AUDIT FINDINGS:**

**Audit Finding Number 2017-001:**

A material weakness was reported for a lack of segregation of duties for revenues. This comment results from the size of the district, which precludes staffing at a level sufficient to provide an ideal environment for internal control. This finding has been corrected.

**CURRENT AUDIT FINDINGS:**

There are no written current audit findings to report.