



Financial Statements
June 30, 2023

Watertown School District No. 14-4

Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited)	6
Financial Statements	
Statement of Net Position	19
Statement of Activities	20
Balance Sheet – Governmental Funds	21
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	22
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	23
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities	26
Statement of Net Position – Proprietary Funds	28
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	29
Statement of Cash Flows – Proprietary Funds	30
Notes to Financial Statements	31
Required Supplementary Information	
Schedule of Changes in the District's Total OPEB Liability and Related Ratios	59
Notes to Required Supplementary Information – OPEB Schedule	60
Budgetary Comparison Schedule – Budgetary Basis – General Fund	61
Budgetary Comparison Schedule – Budgetary Basis – Capital Outlay Fund	64
Budgetary Comparison Schedule – Budgetary Basis – Special Education Fund	65
Budgetary Comparison Schedule – Budgetary Basis – LATC Post Secondary Fund	66
Budgetary Comparison Schedule – Budgetary Basis – Financial Aid Fund	68
Notes to Required Supplementary Information – Budgetary Schedules	69
Schedule of Employer's Share of Net Pension Liability (Asset)	70
Schedule of Employer's Contributions	71
Notes to Required Supplementary Information – Pension Schedule	72
Supplementary Information	
Combining Balance Sheets – Nonmajor Governmental Funds	74
Combining Statements of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	75
Combining Statements of Net Position – Nonmajor Proprietary Funds	76
Combining Statements of Revenues, Expenses, and Changes in Net Position – Nonmajor Proprietary Funds ..	78
Combining Statements of Cash Flows – Nonmajor Proprietary Funds	80
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>	82
Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance	84
Schedule of Expenditures of Federal Awards	87
Notes to Schedule of Expenditures of Federal Awards	89
Schedule of Findings and Questioned Costs	90



Independent Auditor's Report

To the School Board
Watertown School District No. 14-4
Watertown, South Dakota

Report on the Audit of the Financial Statements

Qualified, Unmodified, and Disclaimer of Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Watertown School District No. 14-4 (the School District), as of and for the year ended June 30, 2023, 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.

Disclaimer of Opinion on the Discretely Presented Component Unit

We do not express an opinion on the accompanying financial statements of the discretely presented component unit of the School District. Because of the significance of the matter described in the Basis for Disclaimer of Opinion on the Discretely Presented Component Unit section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the discretely presented component unit.

Qualified Opinions on the Aggregate Remaining Fund Information and Governmental Activities

In our opinion, except for the effects of the matter described in the Basis for Qualified and Unmodified Opinions section of our report, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate remaining fund information and governmental activities of the School District, as of June 30, 2023, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on the Business-Type Activities and Each Major Fund

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the School District, as of June 30, 2023, 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.

Basis for Disclaimer of Opinion on the Discretely Presented Component Unit

The financial statements of the Lake Area Technical College Foundation have not been audited, and we were not engaged to audit the Lake Area Technical College Foundation's financial statements as part of our audit of the School District's basic financial statements. The Lake Area Technical College Foundation's financial activities, excluding the required financial statement footnotes, are included in the School District's basic financial statements as a discretely presented component unit and comprise approximately \$26,277,320 of assets, \$829,899 of liabilities, and \$25,447,421 of net position.

Basis for Qualified and Unmodified Opinions

We conducted our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Watertown School District No. 14-4 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

Matter Giving Rise to Qualified Opinions on the Aggregate Remaining Fund Information and Governmental Activities

The financial statements of the Arrow Education Foundation have not been audited, and we were not engaged to audit the Arrow Education Foundation's financial statements as part of our audit of the School District's basic financial statements. The Arrow Education Foundation's financial activities, excluding the required financial statement footnotes, are included in the School District's basic financial statements as a blended component unit presented as a special revenue fund and represent 28%, 32%, and 4% of the assets, net position, and revenues, respectively, of the School District's aggregate remaining fund information. The Arrow Education Foundation's financial activities, excluding the required financial statement footnotes, being included in the School District's basic financial statements as a blended component unit presented as a special revenue fund, therefore, also are included within the governmental activities and represent 2%, 3%, and less than 1% of the assets, net position, and revenues, respectively, of the School District's governmental activities.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Watertown School District No. 14-4's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Auditor's Responsibilities for the Audit of the Discretely Presented Component Unit

Our responsibility is to conduct an audit of the School District's financial statements in accordance with GAAS and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion on the Discretely Presented Component Unit section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the discretely presented component unit.

We are required to be independent of the School District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

Auditor's Responsibilities for the Audit of the Governmental Activities, the Business-Type Activities, Each Major Fund, and the Aggregate Remaining Fund Information

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Watertown School District No. 14-4's basic financial statements. The combining nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, because of the significance of the matter disclosed in the Basis for Disclaimer of Opinion on the Discretely Presented Component Unit section of our report, it is inappropriate to, and we do not, express an opinion in relation to the basis financial statements as a whole on the supplementary information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2024, on our consideration of Watertown School District No. 14-4's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

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

Aberdeen, South Dakota
February 26, 2024

This section of the annual financial report of the Watertown School District No. 14-4 (the District) presents Management's Discussion and Analysis of the District's financial performance during the fiscal year ended on June 30, 2023. This MD&A is to be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District continues to maintain an adequate financial position in all major funds with indication as in prior years that the Special Education Fund is identified at concern status with a fund balance operation at 12.90% of expenditures. This percent has increased and maintained over prior years and therefore the District continues to analyze the operation and review additional funding that is available through the State through the Extraordinary Cost Fund. The ending fund balance in the General Fund is 24.55% of expenditures, which is a 3.6% decrease from the prior year. The fund balance percentage is based on the most current year's total expenditures in the fund being analyzed. Increased federal funding related to ESSER allocations has allowed the District flexibility in the anticipated transfer in from the Capital Outlay Fund. Under cash limiting legislation, schools are not allowed to have their lowest month ending cash balance in an amount in excess of 25% of the prior year's expenditures. Due to the amount of federal funding allocated to public school districts as a result of the coronavirus pandemic, the School Finance Accountability Board with the approval of the Joint Committee on Appropriations passed two resolutions in regard to the monthly cash balance accounting. The resolution provides a complete waiver of excess cash balance penalties applicable to general state aid in FY2022 as well as FY2023. The ending fund balance of the General Fund on June 30, 2023 was \$7,393,023.
- The District's net position from governmental and business-type activities increased by \$14,945,412 or 15.48% resulting in a net position of \$111,485,329. The District's investment in capital and right-to-use lease assets is noted at \$104,505,986 and reflects an increase of 23.21% from June 30, 2022. These Capital Assets are used to provide educational services; consequently, they are not available for future spending. The District's net investment in capital and right-to-use lease assets was \$78,099,561, an increase of 38.78% from June 30, 2022.
- During the year, the District's total revenues of \$107,232,900 were composed of revenue reported under governmental activities at 94% with the other 6% as reported under Business-type activities. Revenue generation was in large part contributed to property taxes and related revenue coming in at \$22,928,809 as well as State Aid and other state sourced revenue in the amount of \$26,226,359.
- The Capital Outlay Fund had an ending fund balance at June 30, 2023 of \$7,069,649 with revenues reported at \$7,696,495 and expenditures at \$12,165,100. The expenditures over revenue were anticipated as the District completed work for Phase I of the Athletic Complex.
- The Special Education Fund had revenue exceed expenditures and created an ending fund balance on June 30, 2023 of \$967,206, an increase of \$289,006 from the previous fiscal year. This Fund is identified at concern status with a fund balance operation at 12.90% of expenditures. A comfortable level of funding operation within the Special Education Fund would be a 15% fund balance operation.

- The financial activity of the Lake Area Technical College Fund reflects an anticipated decrease with an ending fund balance as of June 30, 2023 of \$7,134,360. Revenue came in at \$39,019,945 and expenditures at \$38,852,873. Expenditures account for construction in progress of both the Diesel Expansion and Archway project.
- The District as of June 30, 2023 had remaining commitments of approximately \$90,000 related to the Track Phase II architectural fees of the high school, remaining commitments of approximately \$1,722,000 related to the Diesel Expansion project at LATC, and remaining commitments of approximately \$13,000,000 related to the Archway project at LATC.
- Long term debt payable at June 30, 2023 was comprised of Capital Outlay Certificate Debt in the amount of \$23,465,000 and related unamortized premiums in the amount of \$3,405,958, as well as lease liabilities in the amount of \$464,533. Additionally, the District recognizes its Early Retirement Plan obligation as long-term debt and at year-end that payable amount is \$596,121 of which the District's General Fund and LATC Post Secondary Fund is responsible for respective payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School District:

- The first two statements are district-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- Governmental fund statements tell how general District services were financed in short-term as well as what remains for future spending.
- Proprietary fund statements offer short and long-term financial information about the activities that the District operates like a business.

The financial statements also include notes that provide further explanation of some of the information in the financial statements and provide additional disclosures so statement users have a complete picture of the District's financial activities and position. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements by including a comparison of the District's budget data for the year.

Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

Figure A-1

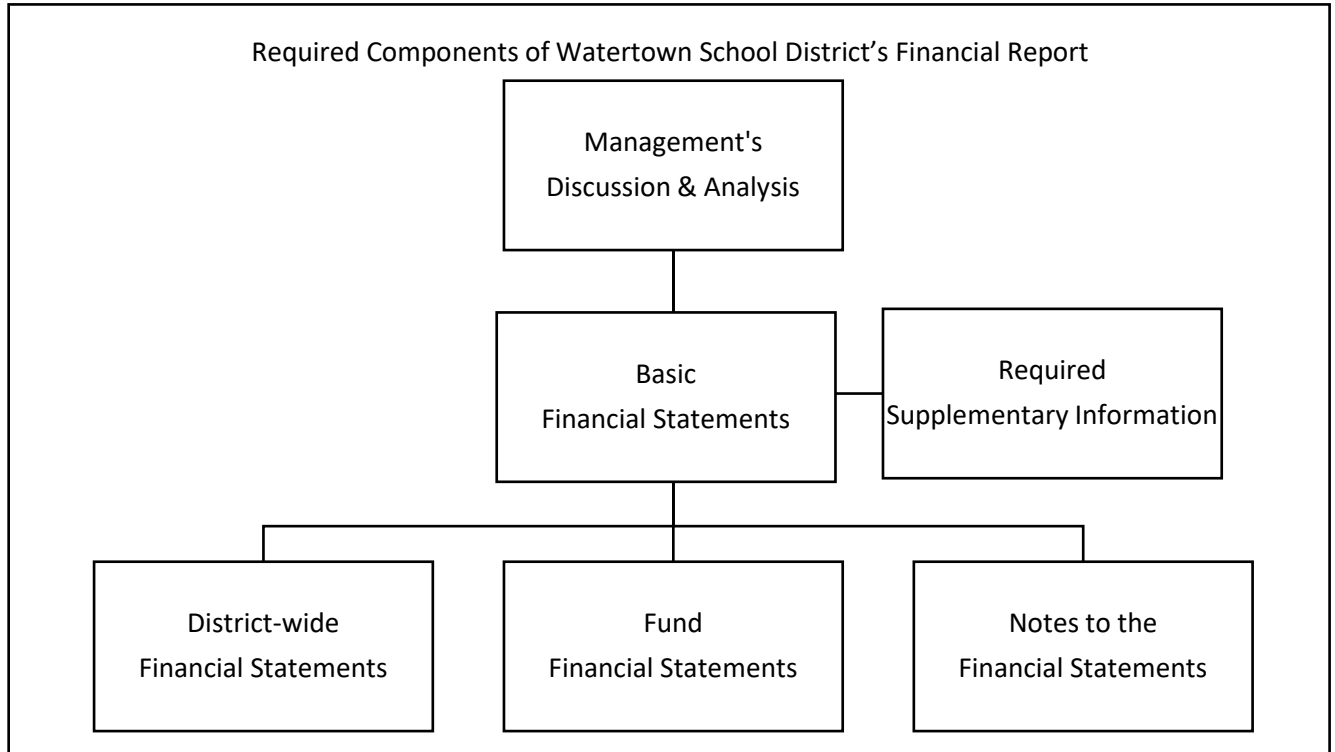


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-Wide Statements	Governmental Funds	Fund Financial Statements	
			Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as General, Special Education and Capital Outlay	Activities the District operates similar to private businesses, such as food service and student services	Instances in which the District administers resources on behalf of someone else, such as student activities
Required financial statements changes	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Exchanges and Changes in Fund Net Positions • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term.	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term debt included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets, although they can.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-Wide statements report information about the District as a whole, using accounting methods similar to those used by the private sector. The statement of net position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net positions are the difference between the District's assets and liabilities and are one way to measure the District's financial position.

- Over time, increases and decreases in the District's net positions are an indicator of whether its financial position is improving or deteriorating.
- Additional non-financial factors, such as changes in the District's property tax base, condition of facilities and equipment, District enrollment trends and changes in the school aid funding formula from the State of South Dakota need to be considered as well.

The government-wide financial statements divide the District's activities into three categories:

- Governmental Activities include the District's instructional and support service costs in the following funds: General Fund, Capital Outlay, Special Education, Post-Secondary, Financial Aid Fund and non-major governmental funds. Debt service payments and capital equipment purchases are also accounted for in Governmental Activities. The financial support of Governmental Activities is derived mainly through property taxes, State aid, State and Federal grants, and the tuition and fees received by Lake Area Technical College.
- Business-type Activities are activities in which the District charges fees to assist with the cost of the services being provided. The Nutrition Services, Arena Concessions, Driver's Education, Pre-School Services, LATC Bookstore, LATC Food Service and LATC Educare Service are Business-type Activities of the District.
- Component Unit: The District separately reports the activity of LATC Foundation.

Fund financial statements provide more detailed information about the District's individual funds and not the District as a whole. Funds are accounting devices that the District uses to track specific sources of funding and spending for particular purposes.

- Law requires the use of certain funds and other funds are also used by the District to accommodate accounting and tracking of financial activities for varying purposes. The following are some of the funds used by the District and their general purpose.
 - General Fund - general instructional operations of the District
 - Capital Outlay Fund - capital type acquisitions (buildings, equipment & debt retirement)
 - Special Education Fund - costs related to providing instruction and support services to students with special needs
 - Post Secondary Fund - accommodates the operations of Lake Area Technical College (LATC)
 - Perkins Fund - accommodates the financial assistance provided by the Federal Government in the form of student loans for the students at LATC
 - Financial Aid Fund - accounts for student loans and college work study as provided by the Federal Government for LATC's students

The District has three types of funds:

- **Governmental Funds** - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information with the governmental fund statements that explain the relationship (or differences) between them.

The Watertown School District has designated the General Fund, Capital Outlay Fund, Special Education Fund, Post Secondary Fund and Financial Aid Fund as its major funds. Therefore, information is presented separately for these funds in the balance sheet and the statement of revenues, expenditures and changes in fund balance. Data for other governmental funds is provided in combined form.

- **Proprietary Funds** - Services for which the District charges users a fee are generally reported in proprietary funds. Proprietary funds are like government-wide statements in that they both provide short and long-term financial information.
 - **Enterprise Funds** (one type of proprietary fund) are the District's business-type activities reported on the government-wide financial statements and they provide more detail and additional information, such as cash flows.
 - **Internal Service Funds** (the other kind of proprietary fund) are used to report activities that provide supplies and services for the District's other programs and activities. The District operates the Self-funded Insurance Trust as an Internal Service Fund.
- **Component Unit Activities** – Arrow Education Foundation is an unaudited blended component unit reported separately as an independent corporation organized for the benefit of the School District. The primary focus of the Arrow Education Foundation is to support the advancement of education through scholarships and grants for costs associated with classroom activities and new program implementation for the benefit of students. The Arrow Education Foundation is financed by contributions and donations and earnings on investments.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Statement of Net Position – The District's combined net position was as follows:

Statement of Net Position June 30, 2023							
	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22	
Current and Other Assets	\$49,948,387	\$56,043,706	\$3,035,335	\$4,013,270	\$52,983,722	\$60,056,976	-11.78%
Net Pension Asset	\$135,276	\$11,344,442	\$4,313	\$354,068	\$139,589	\$11,698,510	-98.80%
Capital Assets and Right-to-Use Assets (Net)	\$104,140,869	\$84,605,458	\$365,117	\$214,462	\$104,505,986	\$84,819,920	23.21%
Total Assets	\$154,224,532	\$151,993,606	\$3,404,765	\$4,581,800	\$157,629,297	\$156,575,406	0.67%
Pension and OPEB Deferred Outflows	\$13,591,768	\$15,754,434	\$427,124	\$485,018	\$14,018,892	\$16,239,452	-13.67%
Assets and Deferred Outflows	\$167,816,300	\$167,748,040	\$3,831,889	\$5,066,818	\$171,648,189	\$172,814,858	-0.68%
Long-term Debt Outstanding	\$27,931,612	\$29,695,910	\$0	\$0	\$27,931,612	\$29,695,910	-5.94%
Other Liabilities	\$11,253,914	\$11,335,772	\$502,163	\$948,735	\$11,756,077	\$12,284,507	-4.30%
Pension, OPEB and Other Deferred Inflows	\$20,224,314	\$33,610,490	\$250,857	\$684,034	\$20,475,171	\$34,294,524	-40.30%
Total Liabilities	\$59,409,840	\$74,642,172	\$753,020	\$1,632,768	\$60,162,860	\$76,274,941	-21.12%
Net Position:							
Net Investment in Capital and Right-to-Use Assets	\$77,734,444	\$56,063,295	\$365,117	\$214,462	\$78,099,561	\$56,277,757	38.78%
Restricted	\$24,023,573	\$27,650,738	\$180,580	\$155,052	\$24,204,153	\$27,805,790	-12.95%
Unrestricted	\$6,648,443	\$9,391,835	\$2,533,172	\$3,064,535	\$9,181,615	\$12,456,370	-26.29%
Total Net Position	\$108,406,460	\$93,105,868	\$3,078,869	\$3,434,049	\$111,485,329	\$96,539,917	15.48%
Liabilities, Deferred Inflows and Net Position	\$167,816,300	\$167,748,040	\$3,831,889	\$5,066,817	\$171,648,189	\$172,814,858	-0.68%

The statement of net position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the District, consisting of Capital Outlay Certificate indebtedness, have been reported in this manner on the Statement of Net Position. The difference between the District's assets and liabilities is its net position.

The District's investment in capital and right-to-use lease assets is noted at \$104,505,986 and reflects an increase of 23.21% from June 30, 2022. These capital and right-to-use lease assets are used to provide educational services; consequently, they are not available for future spending. The District's net investment in capital and right-to-use lease assets was \$78,099,561, an increase of 38.78% from June 30, 2022. Although the investment in capital and right-to-use lease assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital and right-to-use lease assets themselves cannot be used to liquidate these liabilities.

Watertown School District No. 14-4
Management's Discussion and Analysis (Unaudited)
June 30, 2023

The total net position of the District increased by \$14,945,412 or 15.48%.

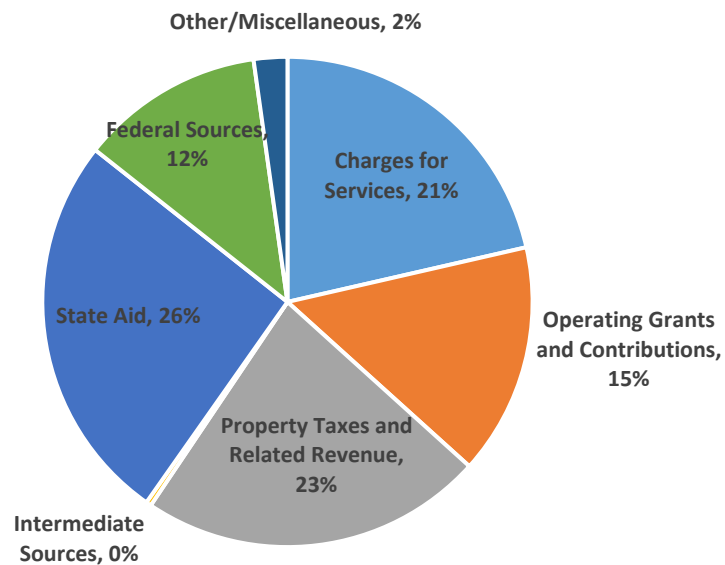
Statement of Activities – The table below represents the District's changes in Net Position for Governmental and Business-type Activities.

Statement of Activities of Watertown School District						
	Governmental Activities 2022-23	Governmental Activities 2021-22	Business-type Activities 2022-23	Business-type Activities 2021-22	Total 2022-23	Total 2021-22
REVENUE:						
Program Revenue						
Charges for Services	\$21,609,046	\$20,096,361	\$5,131,060	\$4,642,211	\$26,740,106	\$24,738,572
Operating Grants & Contributions	\$15,415,821	\$18,725,400	\$1,182,691	\$2,510,357	\$16,598,512	\$21,235,757
Capital Grants & Contributions	\$12,139,871	\$4,784,641	\$0	\$0	\$12,139,871	\$4,784,641
General Revenue						
Property Taxes and Gross Receipts Tax	\$22,928,809	\$21,402,879	\$0	\$0	\$22,928,809	\$21,402,879
State Aid and Other State Sources	\$26,226,359	\$26,399,267	\$0	\$0	\$26,226,359	\$26,399,267
Revenue from Federal Sources	\$3,496	\$130,005	\$0	\$0	\$3,496	\$130,005
Unrestricted Investment Earnings (Losses)	\$342,207	(\$576,181)	\$17,811	(\$36,603)	\$360,018	(\$612,784)
Other/Miscellaneous	\$2,235,729	\$1,775,768	\$0	\$0	\$2,253,729	\$1,775,768
Total Revenue	\$100,901,338	\$92,738,140	\$6,331,562	\$7,115,965	\$107,232,900	\$99,854,105
EXPENSES:						
Instruction	\$39,980,449	\$36,165,966	\$0	\$0	\$39,980,449	\$36,165,966
Support services	\$22,441,081	\$22,294,141	\$0	\$0	\$22,441,081	\$22,294,141
Non-programmed Charges	\$19,877,795	\$22,216,782	\$0	\$0	\$19,877,795	\$22,216,782
Debt Service Payments	\$687,611	\$1,132,475	\$0	\$0	\$687,611	\$1,132,475
Co-curricular Costs	\$2,613,810	\$2,130,641	\$0	\$0	\$2,613,810	\$2,130,641
Nutrition/Food/Concessions Services	\$0	\$0	\$2,974,665	\$2,749,989	\$2,974,665	\$2,749,989
Student/Support Services	\$0	\$0	\$3,712,077	\$3,797,768	\$3,712,077	\$3,797,768
Total Expense	\$85,600,746	\$83,940,005	\$6,686,742	\$6,547,757	\$92,287,488	\$90,487,762
Change in Net Position	\$15,300,592	\$8,798,135	(\$355,180)	\$568,208	\$14,945,412	\$9,366,343
Net Position - Beginning	\$93,105,868	\$84,307,733	\$3,434,049	\$2,865,841	\$96,539,917	\$87,173,574
Net Position - Ending	\$108,406,460	\$93,105,868	\$3,078,869	\$3,434,049	\$111,485,329	\$96,539,917

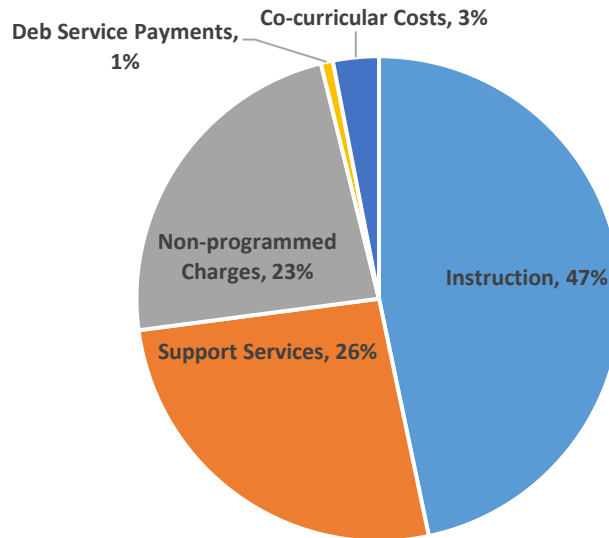
The District's total revenue in the amount of \$107,232,900 is 7.39% higher than the prior year. The expense total was 1.99% higher than the prior year in the amount of \$92,287,488.

The following information illustrates the revenue and expense breakdown of the governmental funds. The graph demonstrates that the majority of the revenue consists of four main sources: State Aid - 26%, Property taxes and related revenue - 23%, Operating grants and contributions - 15% and charges for services - 21%. In comparing these percentages to that of the prior year, it illustrates that the percentage share of revenue received in relation to State and Federal sources has increased by 6% and the revenue from charges for services has decreased by 1%. The percent of revenue received from property tax remained the same. The total revenue of the governmental activities was \$100,901,338 and the total expenditures were \$85,600,746 with the majority of the expenditures designated to instructional and support service costs.

Governmental Funds - Sources of Revenue - 2023



Governmental Funds - Functional Expenses - 2023



Governmental Funds - The focus of the Watertown School District's governmental funds is to provide information on current revenues, expenses and balances of available resources. This information is useful in assessing the District's current financial condition and will assist in the assessment of the District's projected financial position. The changes in the reserved and unreserved fund balances serve as a useful measure of the net resources available for spending at the end of the fiscal year.

The District's governmental funds governmental activities ended the year with a combined net position of \$108,406,460. The majority of this amount is net investment in capital and right-to-use lease assets and restricted for Capital Outlay, Special Education, and Post-Secondary.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This information is in the form of budgetary comparison schedules for the District's five major funds; General Fund, Capital Outlay, Special Education, LATC Post Secondary Fund and Financial Aid Fund. These schedules are accompanied by notes to the required supplementary information which explain the schedules and contain certain other budgetary information.

The combining statements for the nonmajor funds referred to earlier are presented immediately following the required supplementary information on budgets.

CAPITAL ASSET ADMINISTRATION

Capital Assets - The School Board has established its capitalization policy with the value of equipment to be listed at \$5,000 and building improvements at \$25,000. The changes in the Capital Assets of the District were caused by several different factors: purchases, disposals and current year depreciation.

The District ended the 2023 fiscal year with an investment of \$104,505,986 in a broad range of capital and right-to-use lease assets, including land, construction work in process, buildings and improvements, and machinery and equipment. See table A-3 outlined below. This amount represents a net increase of \$19,686,066 or 23.37%.

Additional information on the School District's Capital Assets can be found in Note 4.

Table A-3
Watertown School District 14-4 Capital Assets

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percent Change
	2022-23	2021-22	2022-23	2021-22	2022-23	2022-23
Land	\$7,138,196	\$7,040,196	\$0	\$0	\$98,000	1.39%
Construction Work in Process	\$15,690,365	\$17,918,377	\$0	\$0	-\$2,228,012	-12.43%
Buildings and Improvements	\$71,800,247	\$49,931,078	\$0	\$0	\$21,869,169	43.80 %
Machinery and Equipment	\$9,512,061	\$9,715,807	\$365,117	\$214,462	-\$53,091	-.55%
	<u>\$104,140,869</u>	<u>\$84,605,458</u>	<u>\$365,117</u>	<u>\$214,462</u>	<u>\$19,686,066</u>	<u>23.37%</u>

LONG-TERM DEBT ADMINISTRATION

The District ended the 2023 fiscal year with \$27,931,612 noted as long-term debt. This is a decrease of \$1,764,298. See table A-4 outlined below.

Additional information on the School District's long-term debt can be found in Note 5.

Table A-4
Watertown School District 14-4 Outstanding Debt and Obligations

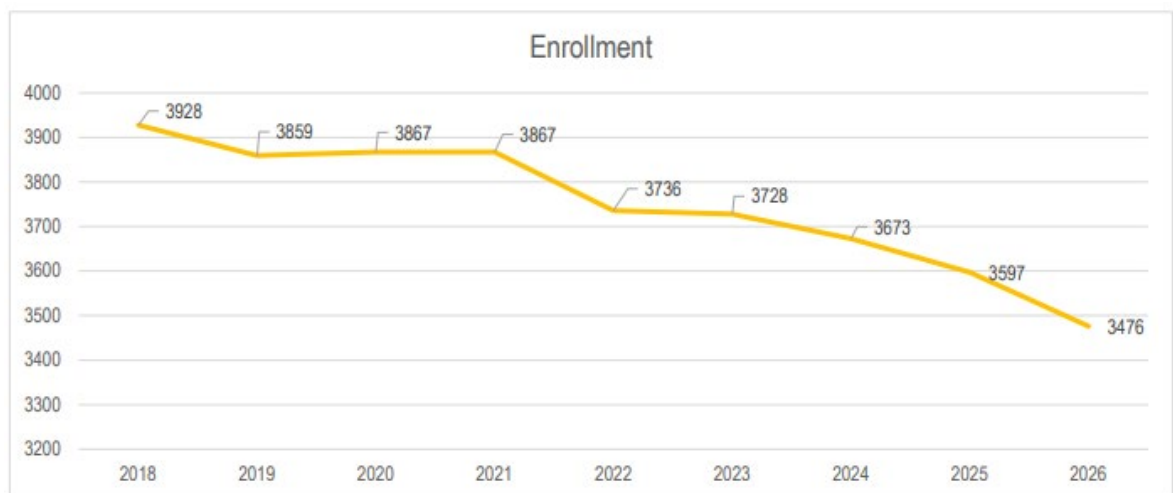
	Governmental Activities		Business-type Activities		Total Dollar Change
	2022-23	2021-22	2022-23	2021-22	2022-23
Capital Outlay Certificates	\$23,465,000	\$24,905,000	\$0	\$0	-\$1,440,000
Unamortized Premium	\$3,405,958	\$3,637,163	\$0	\$0	-\$231,205
Lease Liability	\$464,533	\$0	\$0	\$0	464,533
Early Retirement	\$596,121	\$1,153,747	\$0	\$0	-\$557,626
	<u>\$27,931,612</u>	<u>\$29,695,910</u>	<u>\$0</u>	<u>\$0</u>	<u>-\$1,764,298</u>

FACTORS BEARING ON THE DISTRICT'S FINANCIAL FUTURE

At the time these financial statements were prepared, the District was aware of the following circumstances that could significantly affect its financial condition in the future:

- The District has an assessed value of \$3,174,207,391 for taxes payable in 2024. The State aid formulas for the General Fund and Special Education funds are such that the District does not benefit from the growth in those funds. During the 2016 legislative session, modifications were made that eliminated the taxing authority for the Pension Fund in which has been transferred into the General Fund and limited the growth in the Capital Outlay Fund to the rate of inflation and new property growth. The Capital Outlay Fund no longer receives the full benefit of the increase in property value due to reassessments. The State Legislature annually sets the maximum tax levy amounts the District can request in all taxing funds except the Debt Service Fund, which is established by an approved resolution voted upon by District patrons.
- The primary source of revenue in the General Fund is based on the calculated State Aid formula in which received a 5.0% increase in the target salary amount for the 2023-24 year. The formula is driven by enrollment (see Figure A-5). The formula calculates a target student-to-teacher ratio, based on a sliding scale by student enrollment in which the District derives from a scale of 15 to 1. The District's target number of teachers is calculated by dividing the fall enrollment by the target student-to-teacher ratio. Instructional need is then calculated by multiplying the targeted number of teachers by the statewide target for average teacher salary, and increasing that total by 29% for benefits. The total instructional need is increased by 31% to cover non-instructional costs. This category includes operating costs as well as salaries and benefits of non-instructional staff, such as administrators, counselors, librarians, and school nurses. These steps calculate the District's total need for State Aid. Local effort is applied against the total need, with the State providing any necessary funds to achieve the total need as identified as State Aid.

**Figure A-5
Watertown School District Past & Future Enrollment Forecast**



- On March 13, 2020 President Trump signed the Coronavirus Aid, Relief, and Economic Security Act in which \$13.5 billion was set aside for Elementary and Secondary schools to assist through the COVID-19 pandemic. At the time of this report, the Watertown School District has been awarded \$9,892,049 of federal funds related to funding education to assist schools through the COVID-19 pandemic. The total allocation consists of four separate funding rounds – CRF, ESSER I – II and – III. Each round comes with terms and regulations with the period of funding expanding by one year from the other. With the latest round, ESSER III including a funding period through September of 2024 – therefore accommodating three school years. Lake Area Technical College has been awarded \$9,757,177 of federal funds under HEERF with \$4,356,792 obligated to distribution to students. Funding obligation termed May of 2022.
- Lake Area Technical College accepted bids from Gray Construction for the Diesel Expansion project with a base bid of \$7,772,000 and a construction contingency of \$388,600, 5% of total bid, for a total construction cost of \$8,160,600. This bid contract does not account for architectural and equipment/furniture costs associated with the project. The project began during the spring of 2022 and is anticipated to be completed in June of 2024.
- Lake Area Technical College accepted bids from Gray Construction for the Archway Complex project with a base bid of \$20,600,000 and a construction contingency of \$1,030,000, 5% of total bid, for a total construction cost of \$21,630,000. This bid contract does not account for architectural and equipment/furniture costs associated with the project. The project began during the fall of 2022 and is anticipated to be completed in April of 2024.
- The District accepted bids from Hasslen Construction for the Phase II of the athletic complex project with a base bid of \$10,375,000, an alternate total of \$464,400 and a construction contingency of \$541,970, 5% of total bid, for a total construction cost of \$11,381,370. This bid contract does not account for architectural and equipment/furniture costs associated with the project. The project will begin during the spring of 2024 and is anticipated to be completed in July of 2025.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors of the Watertown School District with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please feel free to contact the Watertown School District's Business Office, P.O. Box 730, Watertown, SD 57201.

Watertown School District No. 14-4

Statement of Net Position

June 30, 2023

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	LATC Foundation
Assets				
Cash and cash equivalents	\$ 20,129,475	\$ 1,240,589	\$ 21,370,064	\$ 2,729,068
Investments	16,669,332	879,817	17,549,149	18,692,488
Taxes receivable	10,483,008	-	10,483,008	-
Other receivables	2,399,785	204,094	2,603,879	4,334,596
Interfund balances	(23,896)	23,896	-	-
Inventories	287,243	649,916	937,159	-
Prepaid expenses	3,440	37,023	40,463	-
Other assets	-	-	-	521,168
Net pension asset	135,276	4,313	139,589	-
Capital and right-to-use lease assets				
Land, improvements and construction in progress	22,828,561	-	22,828,561	-
Capital assets, net	80,846,483	365,117	81,211,600	-
Right-to-use lease assets, net	465,825	-	465,825	-
	<u>154,224,532</u>	<u>3,404,765</u>	<u>157,629,297</u>	<u>26,277,320</u>
Deferred Outflows of Resources				
OPEB related deferred outflows	195,699	-	195,699	-
Pension related deferred outflows	13,396,069	427,124	13,823,193	-
	<u>13,591,768</u>	<u>427,124</u>	<u>14,018,892</u>	<u>-</u>
	<u>\$ 167,816,300</u>	<u>\$ 3,831,889</u>	<u>\$ 171,648,189</u>	<u>\$ 26,277,320</u>
Liabilities				
Accounts payable	\$ 3,202,848	\$ 63,728	\$ 3,266,576	\$ -
Other current liabilities	5,852,904	109,386	5,962,290	829,899
Unearned revenue	147,075	329,049	476,124	-
Noncurrent liabilities:				
Due within one year	2,402,654	-	2,402,654	-
Due in more than one year	25,528,958	-	25,528,958	-
Total OPEB liability	2,051,087	-	2,051,087	-
Total liabilities	<u>39,185,526</u>	<u>502,163</u>	<u>39,687,689</u>	<u>829,899</u>
Deferred Inflows of Resources				
OPEB related deferred inflows	586,877	-	586,877	-
Pension related deferred inflows	7,867,709	250,857	8,118,566	-
Taxes levied for future period	11,662,368	-	11,662,368	-
Other deferred inflows of resources	107,360	-	107,360	-
	<u>20,224,314</u>	<u>250,857</u>	<u>20,475,171</u>	<u>-</u>
Net Position				
Net investment in capital and right-to-use lease assets	77,734,444	365,117	78,099,561	-
Restricted for:				
Capital Outlay	7,097,416	-	7,097,416	-
Special Education	983,895	-	983,895	-
SDRS Pension Purposes	5,663,636	180,580	5,844,216	-
LATC Post Secondary	7,134,360	-	7,134,360	-
Perkins Loan	79,416	-	79,416	-
Arrow Education Foundation	3,064,850	-	3,064,850	-
LATC Foundation	-	-	-	25,447,421
Unrestricted	6,648,443	2,533,172	9,181,615	-
Total net position	<u>108,406,460</u>	<u>3,078,869</u>	<u>111,485,329</u>	<u>25,447,421</u>
	<u>\$ 167,816,300</u>	<u>\$ 3,831,889</u>	<u>\$ 171,648,189</u>	<u>\$ 26,277,320</u>

Watertown School District No. 14-4

Statement of Activities

Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit LATC Foundation
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental activities:								
Instruction	\$ 39,980,449	\$ 13,350,437	\$ 3,817,348	\$ 5,100,000	\$ (17,712,665)	\$ -	\$ (17,712,665)	\$ -
Support services	22,441,081	813,692	1,586,347	7,039,871	(13,001,172)	-	(13,001,172)	-
Community services	81,480	-	-	-	(81,480)	-	(81,480)	-
Nonprogrammed charges	19,796,315	6,912,458	10,012,127	-	(2,871,730)	-	(2,871,730)	-
Co-curricular activities	2,613,810	532,459	-	-	(2,081,351)	-	(2,081,351)	-
*Interest on long-term debt	687,611	-	-	-	(687,611)	-	(687,611)	-
Total governmental activities	85,600,746	21,609,046	15,415,821	12,139,871	(36,436,008)	-	(36,436,008)	-
Business-type activities:								
Food services	2,815,665	1,356,200	1,095,616	-	-	(363,849)	(363,849)	-
Daycare and preschool	399,499	337,712	87,075	-	-	25,288	25,288	-
Drivers education	42,405	44,036	-	-	-	1,631	1,631	-
Bookstore	3,270,173	3,236,038	-	-	-	(34,135)	(34,135)	-
Concessions	159,000	157,074	-	-	-	(1,926)	(1,926)	-
Total business-type activities	6,686,742	5,131,060	1,182,691	-	-	(372,991)	(372,991)	-
Total primary government	\$ 92,287,488	\$ 26,740,106	\$ 16,598,512	\$ 12,139,871	(36,436,008)	(372,991)	(36,808,999)	-
Component Unit	\$ 8,123,563	\$ 80,750	\$ 4,366,185					(3,676,628)
General Revenues								
Taxes:								
Property taxes					22,656,177	-	22,656,177	-
Gross receipts tax					272,632	-	272,632	-
Revenue from state sources:								
State aid					26,122,546	-	26,122,546	-
Other					103,813	-	103,813	-
Revenue from federal sources					3,496	-	3,496	-
Unrestricted investment earnings (losses)					342,207	17,811	360,018	1,322,596
Other general revenues					2,427,639	-	2,427,639	-
Transfer of Perkins Loans to Department of Education					(191,910)	-	(191,910)	
Total general revenues and special items					51,736,600	17,811	51,754,411	1,322,596
Change in Net Position					15,300,592	(355,180)	14,945,412	(2,354,032)
Net Position - Beginning					93,105,868	3,434,049	96,539,917	27,801,453
Net Position - Ending					\$ 108,406,460	\$ 3,078,869	\$ 111,485,329	\$ 25,447,421

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

Watertown School District No. 14-4

Balance Sheet – Governmental Funds

June 30, 2023

	General Fund	Capital Outlay Fund	Special Education Fund	LATC Post Secondary Fund	Financial Aid Fund	Other Governmental Funds	Total Governmental Funds
Assets							
101 Cash and cash equivalents	\$ 5,467,159	\$ 3,847,244	\$ 1,217,185	\$ 5,189,577	\$ 7,472	\$ 244,136	\$ 15,972,773
180 Investments	4,205,186	4,245,233	491,940	4,808,736	-	2,918,237	16,669,332
110 Taxes receivable - current	5,112,951	3,217,884	2,061,140	-	-	-	10,391,975
112 Taxes receivable - delinquent	46,577	27,767	16,689	-	-	-	91,033
120 Accounts receivable, net	16,209	-	-	196,989	-	-	213,198
123 Tuition receivable	-	-	-	31,173	-	-	31,173
125 Lease receivable	-	-	-	103,014	-	-	103,014
132 Due from other fund	-	-	-	1,018	-	-	1,018
140 Due from other governments	1,178,899	40,130	352,825	420,545	-	-	1,992,399
150 Advance to imprest	-	-	-	60,000	-	-	60,000
170 Inventory of supplies	177,574	-	-	109,669	-	-	287,243
192 Prepaid expenses	-	-	-	-	-	3,440	3,440
	<u>\$ 16,204,555</u>	<u>\$ 11,378,258</u>	<u>\$ 4,139,779</u>	<u>\$ 10,920,721</u>	<u>\$ 7,472</u>	<u>\$ 3,165,813</u>	<u>\$ 45,816,598</u>
Liabilities							
402 Accounts payable	\$ 231,084	\$ 653,520	\$ 38,952	\$ 1,959,021	\$ -	\$ 21,547	\$ 2,904,124
404 Contracts payable	2,098,640	-	630,490	1,221,683	-	-	3,950,813
410 Due to other fund	-	-	-	24,914	-	-	24,914
415 Amounts held for others	91,738	-	-	38,301	-	-	130,039
450 Payroll deductions and withholdings and employer matching payable	507,319	-	163,009	288,008	-	-	958,336
475 Unearned revenue	-	-	-	147,075	-	-	147,075
Total liabilities	<u>2,928,781</u>	<u>653,520</u>	<u>832,451</u>	<u>3,679,002</u>	<u>-</u>	<u>21,547</u>	<u>8,115,301</u>
Deferred Inflows of Resources							
551 Unavailable revenue - delinquent property taxes	46,577	27,767	16,689	-	-	-	91,033
552 Unavailable revenue - utility taxes	124,561	-	-	-	-	-	124,561
553 Taxes levied for future period	5,711,613	3,627,322	2,323,433	-	-	-	11,662,368
559 Other deferred inflows of resources	-	-	-	107,360	-	-	107,360
Total deferred inflows of resources	<u>5,882,751</u>	<u>3,655,089</u>	<u>2,340,122</u>	<u>107,360</u>	<u>-</u>	<u>-</u>	<u>11,985,322</u>
Fund Balances							
710 Nonspendable for:							
Inventory	177,574	-	-	109,669	-	-	287,243
720 Restricted for:							
Capital Outlay	-	7,069,649	-	-	-	-	7,069,649
Special Education	-	-	967,206	-	-	-	967,206
LATC Post Secondary	-	-	-	7,024,691	-	-	7,024,691
Financial Aid	-	-	-	-	7,472	-	7,472
Perkins Loan	-	-	-	-	-	79,416	79,416
Arrow Education Foundation	-	-	-	-	-	3,064,850	3,064,850
760 Unassigned	7,215,449	-	-	-	-	-	7,215,449
Total fund balances	<u>7,393,023</u>	<u>7,069,649</u>	<u>967,206</u>	<u>7,134,360</u>	<u>7,472</u>	<u>3,144,266</u>	<u>25,715,976</u>
	<u>\$ 16,204,555</u>	<u>\$ 11,378,258</u>	<u>\$ 4,139,779</u>	<u>\$ 10,920,722</u>	<u>\$ 7,472</u>	<u>\$ 3,165,813</u>	<u>\$ 45,816,599</u>

Watertown School District No. 14-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2023

Total Fund Balances - Governmental Funds	\$ 25,715,976
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital and right-of-use assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$162,604,586 and the accumulated depreciation/amortization is \$58,463,717.	104,140,869
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(24,525,654)
Unamortized balance of premiums on long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(3,405,958)
Assets such as taxes receivable (delinquent) and utility taxes are not available to pay for current period expenditures and, therefore, are deferred in the funds.	215,594
Internal service funds are used by management to charge the costs of activities, such as insurance, to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net position.	3,383,667
Interest expense payable is not included as a liability in the fund statements. Interest expense payable is included as a liability in the statement of net position.	(339,405)
OPEB obligations and related deferred outflows of resources and deferred inflows of resources do not represent available financial resources and, therefore, are not reported in the funds.	(2,442,265)
Net pension liability (asset), pension related deferred inflows of resources, and pension related deferred outflows of resources do not represent available financial resources and, therefore, are not reported in the funds.	5,663,636
Net Position - Governmental Funds	<u>\$ 108,406,460</u>

Watertown School District No. 14-4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2023

	General Fund	Capital Outlay Fund	Special Education Fund	LATC Post Secondary Fund	Financial Aid Fund	Other Governmental Funds	Total Governmental Funds
Revenues							
1000 Revenue from local sources							
1100 Taxes:							
1110 Ad valorem taxes	\$ 10,933,469	\$ 7,149,526	\$ 4,458,936	\$ -	\$ -	\$ -	\$ 22,541,931
1120 Prior year's ad valorem taxes	24,027	14,169	8,480	-	-	-	46,676
1130 Tax deed revenue	6,795	-	-	-	-	-	6,795
1140 Gross receipts taxes	269,511	-	-	-	-	-	269,511
1190 Penalties and interest on taxes	14,447	8,948	5,412	-	-	-	28,807
1210 Revenue in lieu of taxes	8,466	-	-	-	-	-	8,466
1400 Post secondary program tuition and fees	-	-	-	7,616,526	-	-	7,616,526
1500 Earnings on investments and deposits	63,707	37,766	4,376	43,836	-	192,522	342,207
1700 Co-curricular activities:							
1710 Admissions	60,493	-	-	-	-	-	60,493
1790 Other student activity income	471,966	-	-	-	-	-	471,966
1800 Post secondary:							
1820 Resales/services - occupational programs	-	-	-	328,568	-	-	328,568
1830 Resales/services - parts department	-	-	-	258,771	-	-	258,771
1840 State fees	-	-	-	781,540	-	-	781,540
1850 Corporate education fees	-	-	-	580,909	-	-	580,909
1860 Local fees	-	-	-	3,855,710	-	8,110	3,863,820
1900 Other revenue from local sources:							
1910 Rentals	135,492	-	-	190,250	-	-	325,742
1920 Contributions and donations	-	115,000	-	5,264,020	-	360,255	5,739,275
1970 Charges for services	62,699	-	47,860	115,794	-	-	226,353
1990 Other	455,973	54,002	501	1,009,452	27,976	50,094	1,597,998
2000 Revenue from intermediate sources							
2100 County sources:							
2110 County apportionment	337,129	-	-	-	-	-	337,129
2200 Revenue in lieu of taxes	11,973	-	-	-	-	-	11,973
2900 Other revenue county sources	111,921	-	-	-	-	-	111,921
3000 Revenue from state sources							
3100 Grants-in-aid:							
3110 Unrestricted grants-in-aid	13,676,333	-	-	7,716,852	-	-	21,393,185
3120 Restricted grants-in-aid	59,307	-	2,125,939	2,707,235	114,599	-	5,007,080
3900 Other state revenue	8,655	-	-	7,694,414	-	-	7,703,069
4000 Revenue from federal sources							
4100 Grants-in-aid:							
4130 Unrestricted grants-in-aid received from federal government through an intermediate source	1,592	-	-	-	-	-	1,592
4140 Restricted grants-in-aid received directly from federal government	-	-	-	236,071	9,633,481	-	9,869,552
4150-4199 Restricted grants-in-aid received from federal government through the state	1,984,832	317,084	1,130,560	618,093	-	-	4,050,569
4900 Other federal revenue	-	-	-	1,904	-	-	1,904
Total revenues	28,698,787	7,696,495	7,782,064	39,019,945	9,776,056	610,981	93,584,328

See Notes to Financial Statements

Watertown School District No. 14-4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2023

	General Fund	Capital Outlay Fund	Special Education Fund	LATC Post Secondary Fund	Financial Aid Fund	Other Governmental Funds	Total Governmental Funds
Expenditures							
1000 Instruction							
1100 Regular programs:							
1110 Elementary schools	8,448,596	826,313	-	-	-	-	9,274,909
1120 Middle/junior high schools	2,395,900	43,391	-	-	-	-	2,439,291
1130 High school	4,493,615	340,653	-	-	-	-	4,834,268
1140 Preschool services	73,129	-	-	-	-	-	73,129
1200 Special programs:							
1210 Gifted and talented	98,936	-	-	-	-	-	98,936
1220 Programs for special education	-	4,120	5,277,607	-	-	-	5,281,727
1230 Coordinated early intervening services instruction	-	-	1,281	-	-	-	1,281
1250 Culturally different	138,322	-	-	-	-	-	138,322
1270 Educationally deprived	547,864	-	-	-	-	-	547,864
1290 Other special programs	494,004	-	-	-	-	-	494,004
1300 Adult continuing education programs:							
1390 Other adult continuing education programs	-	-	-	185,336	-	-	185,336
1500-1999 Post secondary occupational programs	-	-	-	14,880,033	-	-	14,880,033
2000 Support services							
2100 Pupils:							
2110 Attendance and social work	207,645	-	-	-	-	-	207,645
2120 Guidance	812,004	-	-	2,736,719	-	-	3,548,723
2130 Health	252,997	-	179,564	-	-	-	432,561
2140 Psychological	-	-	359,815	-	-	-	359,815
2150 Speech pathology	-	-	781,511	-	-	-	781,511
2160 Audiology services	-	-	7,599	-	-	-	7,599
2170 Student therapy services	-	-	441,494	-	-	-	441,494
2200 Support services - instructional staff:							
2210 Improvement of instruction	419,002	-	94,142	445,920	-	-	959,064
2220 Educational media	1,110,776	-	29,918	944,541	-	-	2,085,235
2300 Support services - general administration:							
2310 Board of Education	86,363	-	-	60,416	-	-	146,779
2320 Executive administration	575,583	-	-	417,217	-	-	992,800
2400 Support services - school administration:							
2410 Office of the Principal	1,950,816	-	-	-	-	-	1,950,816
2420 Vocational school - directors office	-	-	-	862,024	-	-	862,024
2430 Financial aid administration	-	-	-	333,060	-	-	333,060
2440 Title I program administration	67,113	-	-	-	-	-	67,113
2490 Other support services	67,350	-	-	279,841	-	-	347,191
2500 Support services - business:							
2520 Fiscal services	855,832	23,043	-	366,714	-	129,842	1,375,431
2530 Facilities acquisition and construction	-	-	-	14,410,376	-	-	14,410,376
2540 Operation and maintenance of plant	3,006,747	8,349,607	-	1,959,622	-	-	13,315,976
2550 Pupil transportation	1,031,304	116,069	-	-	-	-	1,147,373
2570 Internal services	110	-	-	-	-	-	110
2590 Other	-	-	-	-	-	30,907	30,907

Watertown School District No. 14-4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2023

	General Fund	Capital Outlay Fund	Special Education Fund	LATC Post Secondary Fund	Financial Aid Fund	Other Governmental Funds	Total Governmental Funds
2600 Support services - central:							
2620 Planning	65,606	-	-	-	-	-	65,606
2700 Support services - special education:							
2710 Administrative costs	-	-	180,058	-	-	-	180,058
2730 Transportation costs	-	-	114,589	-	-	-	114,589
2750 Other special education costs	-	-	29,068	-	-	-	29,068
2800 Resale services:							
2810 Post secondary resales/service	-	-	-	2,293	-	-	2,293
2820 RIS - precision production	-	-	-	319,316	-	-	319,316
2900 Other support services	-	-	-	24,852	-	-	24,852
3000 Community services							
3700 Nonpublic school	81,480	-	-	-	-	-	81,480
4000 Nonprogrammed charges							
4200 Student financial aid	-	-	-	-	9,789,919	11,039	9,800,958
4500 Early retirement payments	818,168	-	-	275,517	-	-	1,093,685
4900 Other nonprogrammed costs	-	-	-	-	-	454,636	454,636
5000 Debt services	56,068	2,355,323	935	59,817	-	-	2,472,143
6000 Co-curricular activities							
6100 Male activities	238,133	-	-	-	-	-	238,133
6200 Female activities	242,760	-	-	-	-	-	242,760
6500 Transportation	204,432	-	-	-	-	-	204,432
6900 Combined activities	1,277,630	106,581	-	289,259	-	-	1,673,470
Total expenditures	30,118,285	12,165,100	7,497,581	38,852,873	9,789,919	626,424	99,050,182
Excess of Revenue over (under) Expenditures	(1,419,498)	(4,468,605)	284,483	167,072	(13,863)	(15,443)	(5,465,854)
Other Financing Sources (Uses)							
5110 Transfers in	600,000	2,000,000	-	-	15,000	-	2,615,000
8110 Transfers out	-	(600,000)	-	(2,015,000)	-	-	(2,615,000)
5214 Lease proceeds	271,224	-	4,523	291,529	-	-	567,276
5130 Sale of surplus property	-	99,960	-	103,500	-	-	203,460
Total other financing sources (uses)	871,224	1,499,960	4,523	(1,619,971)	15,000	-	770,736
8140 Transfer of loans to Department of Education	-	-	-	-	-	(191,910)	(191,910)
Net Change in Fund Balances	(548,274)	(2,968,645)	289,006	(1,452,899)	1,137	(207,353)	(4,887,028)
Fund Balance - Beginning	7,941,297	10,038,294	678,200	8,587,259	6,335	3,351,619	30,603,004
Fund Balance - Ending	\$ 7,393,023	\$ 7,069,649	\$ 967,206	\$ 7,134,360	\$ 7,472	\$ 3,144,266	\$ 25,715,976

Watertown School District No. 14-4
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the
Government-Wide Statement of Activities
Year Ended June 30, 2023

Net Change in Fund Balances - Total Governmental Funds \$ (4,887,028)

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 or amortization expense. This is the amount by which capital outlay exceeded depreciation and amortization in the current period.	19,177,498
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.	(75,479)
The receipt of donated capital assets is not reported on the fund statements, but is reported as a general revenue on the government-wide statements.	433,392
Payment of principal on long-term debt and lease liabilities is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.	
CO Certificates \$ 1,440,000	
Financing Leases 102,743	1,542,743
The issuance of long-term debt is an other financing source in the fund statements, but an increase in long-term liabilities on the government-wide statements.	
Financing Leases \$ 567,276	(567,276)
In the statement of activities, certain operating expenses (early retirement) are measured by the amounts earned during the year. In the governmental funds expenditures, these items are measured by the amount actually paid. Early retirement paid during the period exceeded the amount earned.	557,626
In both the government-wide and fund financial statements, revenues from property tax levies and utility taxes are applied to finance the budget of a particular period. Accounting for revenues from property and utility tax accruals in the funds' statements differs from the accounting in the government-wide statements in that the fund financial statements require the amounts to be "available." This amount reflects the application of both the application period and "availability criteria."	35,089
Interest expense payable is not included as an expenditure in the fund statements. Interest expense payable is included as an expenditure in the statement of activities.	10,584

Watertown School District No. 14-4
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the
Government-Wide Statement of Activities
Year Ended June 30, 2023

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of the internal service is reported with governmental activities.	(2,092,204)
The accrual of OPEB costs are not reflected in governmental funds, but the statement of activities reflects the change in this liability and related deferred outflows of resources from one year to the next.	238,678
Governmental funds report the effect of premiums and discounts when the debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities. This is the amount of premiums amortized in the current period.	231,205
Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.	<u>695,764</u>
Change in Net Position of Governmental Activities	<u><u>\$ 15,300,592</u></u>

Watertown School District No. 14-4
Statement of Net Position – Proprietary Funds
June 30, 2023

	Nonmajor Enterprise Funds	Internal Service Fund
Assets		
Current assets		
101 Cash and cash equivalents	\$ 1,240,589	\$ 4,156,702
180 Investments	879,817	-
120 Accounts receivable	185,365	-
130 Due from other funds	26,664	-
140 Due from other governments	18,729	-
170 Inventory of supplies	18,215	-
171 Inventory of stores purchased for resale	630,444	-
172 Inventory of donated food	1,257	-
192 Prepaid expenses	37,023	-
Total current assets	<u>3,038,103</u>	<u>4,156,702</u>
Noncurrent assets		
196 Net pension asset	4,313	-
200 Capital assets		
204 Machinery and equipment - local funds	795,845	-
Less accumulated depreciation	<u>(430,728)</u>	<u>-</u>
Total noncurrent assets	<u>369,430</u>	<u>-</u>
Deferred outflows of resources		
252 Pension related deferred outflows	<u>427,124</u>	<u>-</u>
	<u>\$ 3,834,657</u>	<u>\$ 4,156,702</u>
Liabilities and Net Position		
Liabilities		
400 Current liabilities:		
402 Accounts payable	\$ 63,728	\$ 298,724
404 Contracts payable	20,585	-
409 Incurred but not reported claims	-	474,311
410 Due to other funds	2,768	-
450 Payroll deductions and withholdings and employer matching payable	4,197	-
471 Deposits payable	84,604	-
475 Unearned revenue	329,049	-
Total current liabilities	<u>504,931</u>	<u>773,035</u>
Deferred inflows of resources		
554 Pension related deferred inflows	<u>250,857</u>	<u>-</u>
Net Position		
706 Net investment in capital assets	365,117	-
707.2 Restricted for pension benefits	180,580	-
708 Unrestricted net position	<u>2,533,172</u>	<u>3,383,667</u>
Total net position	<u>3,078,869</u>	<u>3,383,667</u>
	<u>\$ 3,834,657</u>	<u>\$ 4,156,702</u>

Watertown School District No. 14-4
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds
Year Ended June 30, 2023

	Nonmajor Enterprise Funds	Internal Service Fund
Operating Revenues		
Sales		
1340 Preschool tuition	\$ 11,120	\$ -
1610 To pupils	1,347,470	-
1620 To adults	12,436	-
1630 Ala carte	23,593	-
1690 Other	173,811	-
1720 Bookstore sales	3,236,038	-
1970 Self-insurance premiums	-	6,912,458
1980 Daycare charges for services	326,592	-
Total operating revenues	<u>5,131,060</u>	<u>6,912,458</u>
Operating Expenses		
100 Salaries	1,472,318	-
200 Employee benefits	336,234	-
300 Purchased services	227,560	-
400 Supplies	251,364	-
461 Cost of sales - purchased	4,244,676	-
462 Cost of sales - donated	98,229	-
600 Other	14,661	-
900 Depreciation	41,700	-
4620 Self-insurance costs	-	9,004,662
Total operating expenses	<u>6,686,742</u>	<u>9,004,662</u>
Operating Loss	<u>(1,555,682)</u>	<u>(2,092,204)</u>
Nonoperating Revenue		
Local sources:		
1500 Investment earnings	17,811	-
State sources:		
3810 Cash reimbursements	4,825	-
Federal sources:		
4150 Federal grants	55,918	-
4810 Cash reimbursements	1,023,719	-
4820 Donated food	98,229	-
Total nonoperating revenue	<u>1,200,502</u>	<u>-</u>
Change in Net Position	(355,180)	(2,092,204)
Net Position - Beginning	<u>3,434,049</u>	<u>5,475,871</u>
Net Position - Ending	<u><u>\$ 3,078,869</u></u>	<u><u>\$ 3,383,667</u></u>

Watertown School District No. 14-4

Statement of Cash Flows – Proprietary Funds

Year Ended June 30, 2023

	Nonmajor Enterprise Funds	Internal Service Fund
Cash Flows from (used for) Operating Activities		
Cash receipts from customers	\$ 4,958,162	\$ -
Cash receipts from interfund services provided	-	6,912,458
Payments to employees	(1,832,863)	-
Payments to suppliers	(5,104,652)	-
Payments for claims	-	(9,168,504)
Net Cash used for Operating Activities	<u>(1,979,353)</u>	<u>(2,256,046)</u>
Cash Flows from Noncapital Financing Activities		
Operating grants	55,918	-
Operating subsidies	1,028,544	-
Net Cash from Noncapital Financing Activities	<u>1,084,462</u>	<u>-</u>
Cash Flows used for Capital and Related Financing Activities		
Purchase of capital assets	<u>(192,355)</u>	<u>-</u>
Net Cash used for Capital and Related Financing Activities	<u>(192,355)</u>	<u>-</u>
Cash Flows from Investing Activities		
Sale of investments	<u>300,000</u>	<u>-</u>
Net Cash from Investing Activities	<u>300,000</u>	<u>-</u>
Net Change in Cash and Cash Equivalents	(787,246)	(2,256,046)
Cash and Cash Equivalents, Beginning of Year	<u>2,027,835</u>	<u>6,412,748</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,240,589</u></u>	<u><u>\$ 4,156,702</u></u>
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	\$ (1,555,682)	\$ (2,092,204)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation expense	41,700	-
Value of donated commodities used	98,229	-
Change in assets and liabilities:		
Accounts receivable	(23,776)	-
Inventories	(164,812)	-
Due from other funds	(912)	-
Due from other governments	(6,594)	-
Prepaid expenses	104,695	-
Pension asset and deferred outflows	407,649	-
Accounts payable	(298,667)	(163,842)
Contracts payable	1,232	-
Payroll deductions and withholdings and employer matching payable	(15)	-
Due to other funds	(101)	-
Deposits payable	(15,987)	-
Unearned revenue	(133,135)	-
Pension liability and deferred inflows	(433,177)	-
Net Cash used for Operating Activities	<u><u>\$ (1,979,353)</u></u>	<u><u>\$ (2,256,046)</u></u>
Noncash Investing, Capital and Financing Activities		
Value of commodities received	\$ 98,229	\$ -
Gain on investments not affecting operating loss	17,811	-

Note 1 - Summary of Significant Accounting Policies

The Watertown School District No. 14-4's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for school districts through its pronouncements. The more significant accounting policies established in GAAP and used by the School District are discussed below.

Reporting Entity

The reporting entity of the Watertown School District No. 14-4 (the School District) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); its discretely presented component unit; and those 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.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The School District is financially accountable if its governing board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the School District (primary government). The School District may also be financially accountable for another organization if that organization is fiscally dependent on the School District.

The Lake Area Technical College Foundation meets the definition of a discretely presented component unit. This component unit is displayed in a separate column in the government-wide financial statements to emphasize that it is legally separate from the School District. The Arrow Education Foundation meets the definition of a blended component unit. This component unit is displayed within governmental funds as a non-major governmental fund. Separate unaudited financial statements are available for both of the component units upon request from the School District.

Basis of Presentation and Basis of Accounting**Basis of Presentation**

Government-Wide Statements: The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government, except for fiduciary activities and component units. Eliminations to the various funds have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities and discretely presented component units of the School District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed, in whole or in part, by fees charged to external parties. Discretely presented component units are legally separate organizations that meet certain criteria, as described above, and may be classified as either governmental or business-type activities. See the discussion of individual component units above.

The statement of net position reports all financial and capital resources in a net position form (assets and deferred outflows of resources minus liabilities and deferred inflows of resources 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 the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

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

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

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

Governmental Funds

General Fund: The General Fund is established by South Dakota Codified Law (SDCL) 13-16-3 to meet all of 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.

The special revenue funds maintained by the School District are as follows:

- 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.
- LATC Post-Secondary Fund – A fund established by SDCL 13-39-39.1 to account for funds incidental to the operation of Lake Area Technical College, a school providing post-secondary vocational education programs. This fund is financed by tuition and fees and grants. This is a major fund.
- Financial Aid Fund – A fund established to account for funds incidental to the operation of Lake Area Technical College's student financial aid programs. This fund is financed by grants. This is a major fund.
- Perkins Fund – A fund established to account for funds incidental to the operation of Lake Area Technical College's Perkins Loan financial aid program. This fund is financed by grants and fees and interest. This is not a major fund.
- Arrow Education Foundation – This is an unaudited blended component unit which is a separate and independent corporation organized for the benefit of the School District. The primary focus of the Arrow Education Foundation is to support the advancement of education through scholarships and grants for costs associated with classroom activities and new program implementation for the benefit of students. The Arrow Education Foundation is financed by contributions and donations and earnings on investments. This is not 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:

- The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity.
- Laws or regulations require that the activity's costs of providing services, including capital costs, be recovered with fees and charges, rather than with taxes or similar revenues.
- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

The enterprise funds maintained by the School District are as follows:

- Food Service Fund – A fund used to record financial transactions related to K-12 food service operations. This fund is financed by user charges and grants. This is not a major fund.
- Concessions Fund – A fund used to record financial transactions related to operations of school activity concessions programs. This fund is financed by user charges. This is not a major fund.

- Drivers Education Fund – A fund used to record financial transactions related to operations of the School District’s drivers education program. This fund is financed by user charges. This is not a major fund.
- Pre-School Services Fund – A fund used to record financial transactions related to operations of the pre-school services program. This fund is financed by user charges. This is not a major fund.
- Bookstore Fund – A fund used to record financial transactions related to operations of the Lake Area Technical College bookstore. This fund is financed by user charges. This is not a major fund.
- LATC Food Service Fund – A fund used to record financial transactions related to operations of Lake Area Technical College’s food service operations. This fund is financed by user charges and grants. This is not a major fund.
- LATC Daycare Fund – A fund used to record financial transactions related to operations of Lake Area Technical College’s daycare facility. This fund is financed by user charges and grants. This is not a major fund.

Internal Service Funds: A fund used to report activities that provide goods or services to other funds, departments, or agencies of the School District and its component units, or to other governments, on a cost-reimbursement basis. Internal service funds are never considered to be major funds. The Self Insurance Fund is the only internal service fund maintained by the School District.

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 funds.

Basis of Accounting*Government-Wide Financial Statements*

In the government-wide statement of net position and statement of activities, governmental, business-type, and component unit 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 for the School District is 45 days for property tax receipts. Revenues from reimbursement grants and other similar reimbursement items are recognized when all eligibility requirements imposed by the provider have been met. State revenues are recognized in the year to which the revenue relates or applies. Under the modified accrual basis of accounting, receivables may be measurable but not available. Unavailable revenues, where asset recognition criteria have been met, but for which revenue recognition criteria have not been met, are reported as a deferred inflow of resources.

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

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

Interfund Eliminations and Reclassifications

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

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

Deposits and Investments

For the purpose of financial reporting, “cash and cash equivalents” for the School District includes all demand and savings accounts and certificates of deposit (as early redemption costs would be insignificant) or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-ended mutual fund shares, or similar investments in external investment pools, are also considered to be cash and cash equivalents.

Investments classified in the financial statements of the primary government consist of U.S. Treasuries, negotiable certificates of deposit, and money markets. The investments held by the component units, the LATC Foundation and Arrow Education Foundation, were not audited.

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1, and are payable in two installments on or before April 30 and October 31 of the following year. Approximately 50% is considered to be applied to finance the budget of the current fiscal year and the remaining percentage (50%) is considered to be applied to finance the budget for the subsequent year. The county bills and collects the School District’s taxes and remits them to the School District. School District property tax revenues are recognized to the extent that they are used to finance each year’s appropriations. Current year property taxes receivable, which are not available as a resource that can be used to finance the current year’s appropriations and, therefore, are not susceptible to accrual, have been reported as deferred inflows of resources in both fund financial statements and the government-wide financial statements.

Inventory

Inventory is stated at cost on the first-in, first-out (FIFO) basis. When individual inventory items are purchased they are recorded as assets. When inventory items are consumed, they are recorded as expenditures in governmental funds or expenses in proprietary funds. Although classified as current assets, these inventory balances are offset by nonspendable fund balance amounts which indicate that they do not constitute “available spendable resources” even though they are a component of net current assets. Inventories purchased by the Food Service Fund and LATC Food Service Fund are stated at cost as determined by the first-in, first-out method. Commodity inventories are stated at USDA’s assigned values, which approximate fair value at the date of receipt. Expenses for food items are recorded when consumed.

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

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the 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*	Any Amount	*	*
Buildings and improvements	\$ 25,000	Straight-Line	10 - 50 years
Machinery and equipment	5,000	Straight-Line	3 - 20 years

**Land, an inexhaustible capital asset, is not depreciated.*

Right-to-use leased assets are recognized at the lease commencement date and represent the School District's right to use an underlying asset for the lease term. Right-to-use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the leased asset into service. Right-to-use leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight line method. The amortization period is five years.

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.

Lease Receivables

Lease receivables are recorded by the School District at the present value of future lease payments expected to be received from the lessee during the lease term, reduced by any provision for estimated uncollectible amounts. Lease receivables are subsequently reduced over the life of the lease as cash is received in the applicable reporting period. The present value of future lease payments to be received are discounted based on the interest rate the School District charges the lessee.

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 consist primarily of early retirement benefits payable, capital outlay certificates payable, and lease liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenues and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is on the accrual basis, the same in the fund statement as it is in the government-wide statements.

Lease liabilities represent the School District's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments are discounted based on a borrowing rate determined by the School District.

Cash and Cash Equivalents

The School District pools some of its cash resources for depositing and investing purposes. Accordingly, the enterprise funds have access to their cash resources on demand. All reported deposit balances are considered to be cash equivalents for the purpose of the statement of cash flows.

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.

Proprietary Funds Revenue and Expense Classifications

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

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.

Equity Classifications**Government-Wide Statements**

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

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

Fund Financial Statements

Governmental fund equity is classified as fund balance, and is distinguished between nonspendable, restricted, committed, assigned, or unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements.

Fund Balance Classification Policies and Procedures

The School District classifies governmental fund balance as follows:

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

- Committed – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority, which is the School Board, and does not lapse at year-end.
- Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Fund balance may be assigned by the School Board or Business Manager.
- Unassigned – Includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

The nonspendable fund balance in the General Fund and the LATC Post Secondary Fund is comprised of inventory which is in a nonspendable form.

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 grant agreements requiring dollar-for-dollar spending. Additionally, the government would first use committed, then assigned, and, lastly, unassigned amounts of unrestricted fund balance when expenditures are made.

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

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

Major Special Revenue Fund

Capital Outlay Fund
Special Education Fund
LATC Post Secondary Fund
Financial Aid Fund

Revenue Source

Property taxes
Grants and property taxes
Tuition and fees and grants
Grants

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.

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. The School District contributions and net pension liability (asset) are recognized on an accrual basis of accounting.

Deferred Outflows and Deferred Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has four types of items that qualify for reporting in this category. The School District reports unavailable revenues from property taxes on the government-wide statement of net position and the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Another item is changes in the net pension liability (asset) not included in pension expense reported in the government-wide statement of net position. An additional item is deferred inflows related to leases where the School District is the lessor and is reported in the governmental funds balance sheet and statement of net position. The deferred inflows of resources related to leases are recognized as an inflow of resources (revenue) on the straight-line basis over the term of the lease. The final item is changes in the total OPEB liability included in health insurance expense reported in the government-wide statement of net position.

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 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.

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

Custodial Credit Risk - Deposits – The risk that, in the event of a depository failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2023, the School District's bank balances were \$21,770,840, which includes various bank accounts. Of these deposits, \$329,807 was covered by the FDIC and the remaining balance was uninsured but collateralized with securities held by the pledging financial institution.

Investments

Investments – In general, SDCL 4-5-6 permits School District funds to be invested only in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or (c) 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 deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

The School District holds negotiable certificates of deposits, U.S. Treasuries and money market account funds as investments. As of June 30, 2023, the School District also has investments reported in the financial statements that are held by the two component units, the LATC Foundation and the Arrow Education Foundation, which were unaudited and are not included in the following:

	Moody's Credit Rating	Fair Value	Fair Value Level	Maturity (In Years)	
				Less Than 1	1 to 5
U.S. Treasuries	AAA	\$ 11,524,747	2	\$ 4,469,263	\$ 7,055,484
Money Market	Not Rated	2,887,528	1	2,887,528	-
Negotiable CDs	Not Rated	218,637	2	-	218,637

Negotiable certificates of deposit and U.S. Treasuries classified in level 2 of the fair value hierarchy are valued by the custodian of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market rate assumptions.

Custodial Credit Risk - Investments – The risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does not have an investment policy for custodial risk.

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.

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.

Concentration of Credit Risk – The School District places no limit on the amount that may be invested in any one issuer. More than 5% of the School District's investments are in U.S. Treasuries, which were approximately 79% of total investments.

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 deposits and investments to the fund holding the deposit or making the investment.

Note 3 - Due from Other Governments

As of June 30, 2023, amounts due from other governments are as follows:

General Fund	
Due from federal sources	\$ 900,892
Due from state sources	278,007
Capital Outlay Fund	
Due from federal sources	40,130
Special Education Fund	
Due from federal sources	352,825
LATC Post Secondary Fund	
Due from federal sources	219,558
Due from state sources	191,104
Due from local sources	9,883
	<hr/>
Total due from other governments	\$ 1,992,399
	<hr/>

Note 4 - Changes in Capital Assets

A summary of changes in capital assets for the year ended June 30, 2023, is as follows:

<u>Primary Government</u>	<u>Balance July 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2023</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 7,040,196	\$ 98,000	\$ -	\$ 7,138,196
Construction work in process	17,918,377	14,608,507	16,836,519	15,690,365
Total not being depreciated	24,958,573	14,706,507	16,836,519	22,828,561
Capital and right-to-use assets being depreciated/amortized:				
Buildings and improvements	85,999,373	23,832,103	-	109,831,476
Machinery and equipment	28,396,755	1,321,970	341,452	29,377,273
Right-to-use buildings	-	213,680	-	213,680
Right-to-use machinery and equipment	-	353,596	-	353,596
Total being depreciated/amortized	114,396,128	25,721,349	341,452	139,776,025
Less accumulated depreciation/amortization for:				
Buildings and improvements	36,068,295	2,139,989	-	38,208,284
Machinery and equipment	18,680,948	1,739,007	265,973	20,153,982
Right-to-use buildings	-	36,625	-	36,625
Right-to-use machinery and equipment	-	64,826	-	64,826
Total accumulated depreciation/amortization	54,749,243	3,980,447	265,973	58,463,717
Total capital assets and right-to-use assets being depreciated/amortized, net	59,646,885	21,740,902	75,479	81,312,308
Governmental activities capital and right-to-use assets, net	\$ 84,605,458	\$ 36,447,409	\$ 16,911,998	\$ 104,140,869
Governmental activities:				
Instruction				\$ 3,191,814
Support services				488,837
Co-curricular activities				299,796
Total depreciation/amortization expense - governmental activities				\$ 3,980,447
<u>Business-Type Activities</u>	<u>Balance July 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2023</u>
Capital assets, being depreciated				
Machinery and equipment	\$ 603,490	\$ 192,355	\$ -	\$ 795,845
Total being depreciated	603,490	192,355	-	795,845
Less accumulated depreciation for:				
Machinery and equipment	389,028	41,700	-	430,728
Total accumulated depreciation	389,028	41,700	-	430,728
Total capital assets being depreciated, net	214,462	150,655	-	365,117
Business-type activities capital assets, net	\$ 214,462	\$ 150,655	\$ -	\$ 365,117
Business-type activities:				
Food service				\$ 36,877
Concessions				390
LATC food service				1,430
LATC daycare				3,003
Total depreciation expense - business-type activities				\$ 41,700

As of June 30, 2023, the School District had remaining commitments of approximately \$90,000 related to the Track Phase II project at the high school, remaining commitments of approximately \$1,722,000 related to the Diesel Expansion project at LATC, and remaining commitments of approximately \$13,000,000 related to the Archway project at LATC.

Note 5 - Long-Term Debt

A summary of changes in long-term debt follows:

	Amounts Outstanding July 1, 2022	Issued	Retired	Amounts Outstanding June 30, 2023	Due in One Year
Governmental Activities:					
Capital outlay certificates	\$ 24,905,000	\$ -	\$ (1,440,000)	\$ 23,465,000	\$ 1,470,000
Unamortized premium	3,637,163	-	(231,205)	3,405,958	231,205
Total debt	28,542,163	-	(1,671,205)	26,870,958	1,701,205
Lease liabilities	-	567,276	(102,743)	464,533	105,328
Early retirement	1,153,747	539,795	(1,097,421)	596,121	596,121
Total Primary Government	<u>\$ 29,695,910</u>	<u>\$ 1,107,071</u>	<u>\$ (2,871,369)</u>	<u>\$ 27,931,612</u>	<u>\$ 2,402,654</u>

Early retirement benefits payable for governmental activities typically have been liquidated from the General Fund and LATC Post Secondary Fund.

Long-term debt payable and early retirement at June 30, 2023, is comprised of the following:

Capital Outlay Certificates

Capital outlay certificates, series 2020, interest rate ranges from 3.00% to 5.00% and final maturity date of August 2041. Debt service payments made by the Capital Outlay Fund. \$ 11,920,000

Capital outlay certificates, series 2014, interest rate ranges from 3.00% to 4.00% and final maturity date of December 2026. Debt service payments made by the Capital Outlay Fund. 2,025,000

Capital Outlay Refunding Certificates

Capital outlay refunding certificates, series 2016, interest rate ranges from 1.60% to 2.05% and final maturity date of December 2026. Debt services payments made by the Capital Outlay Fund. 700,000

Capital outlay refunding certificates, series 2017, interest rate ranges from 2.00% to 4.00% and final maturity date of August 2033. Debt service payments made by the Capital Outlay Fund. 8,820,000

Early Retirement

Requires annual payments of not more than \$73,500 per individual with payment made from General Fund and LATC Post Secondary Fund. 596,121

Plus unamortized premiums

3,405,958
\$ 27,467,079

The annual requirements to maturity for all debt, early retirement, and lease liabilities outstanding, excluding unamortized debt premiums, as of June 30, 2023, are as follows:

Year Ending June 30,	C.O. Certificates		Early Retirement		Lease Liabilities	
	Principal	Interest	Principal	Interest	Principal	Interest
2024	\$ 1,470,000	\$ 857,938	\$ 596,121	\$ -	\$ 105,328	\$ 21,587
2025	1,565,000	804,777	-	-	110,678	16,237
2026	1,620,000	750,228	-	-	116,300	10,615
2027	1,510,000	690,601	-	-	122,208	4,707
2028	1,460,000	626,950	-	-	10,019	77
2029-2033	8,320,000	2,109,375	-	-	-	-
2034-2038	4,955,000	702,625	-	-	-	-
2039-2042	2,565,000	116,925	-	-	-	-
	<u>\$ 23,465,000</u>	<u>\$ 6,659,419</u>	<u>\$ 596,121</u>	<u>\$ -</u>	<u>\$ 464,533</u>	<u>\$ 53,223</u>

Note 6 - Leases

Lessee Activities

The School District leases the facilities for a portion of Lake Area Technical College from the South Dakota Board of Technical Education (the Board). The facilities were constructed by the South Dakota Health and Education Facilities Authority (the Authority) funded by proceeds from bonds issued. The Board leases the facilities from the Authority and then sub-leases the facilities to the School District. The lease agreement between the Board and the Authority calls for rental payments that coincide with the required debt service of the Authority. Currently, the rental payments are being paid from the facility fee fund account maintained by the trustee. The facility fee, as of June 30, 2023, is a \$36 per credit hour fee collected from each student attending the four vocational technical schools in South Dakota. These fees are remitted to the trustee for the purpose of making the lease rental payments to the Authority that ultimately retire the indebtedness of the Authority related to the facilities constructed at the various vocational technical schools. The original lease agreement between the Authority and the Board was dated August 1, 1988, and has since been amended and supplemented over the years adding additional Authority-financed projects as leased property and providing for the payment of lease rentals annually from the trust account sufficient to pay the debt service with respect to the additional bonds; however, the sub-lease agreement between the Board and the School District has not been amended and annually renews each July 1 for the ensuing year. As of June 30, 2023, it is anticipated that the facility fees held by the trustee will be sufficient to make the lease rental payments throughout the duration of the leased facilities.

The School District has entered into various leases for copier machines, airport terminal space, and office space. The School District is required to make principal and interest payments through December 2027. The lease liability was valued using discount rate of 5.00%, determined based on the School District's incremental borrowing rate at the inception of the lease.

Lessor Activities

The School District is the lessor of classroom and facility space. The remaining lease receivable and deferred inflows for this lease was \$103,014 and \$107,360, respectively as of June 30, 2023. Interest revenue recognized on the lease was \$3,416 and principal receipts were \$51,584 for the year ended June 30, 2023. The interest rate on the lease was 5.00%. The lease runs through July 2025.

Note 7 - Restricted Net Position

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

<u>Purpose</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay	Law	\$ 7,097,416
Special Education	Law	983,895
SDRS pension benefits	Law	5,844,216
LATC Post Secondary	Law	7,134,360
Perkins Loan program	Law	79,416
Total restricted net position		<u>\$ 21,139,303</u>

Note 8 - Early Retirement

The School District has an early retirement plan providing cash benefits to any full-time salaried employee with at least fifteen years of full-time salaried service with the School District and who are between and/or inclusive of the ages of fifty-five and sixty-two as of June 30 or the application year. Employees who leave, or have previously left, the School District are not eligible for the benefit if they are re-employed after August 1, 2008. The cash benefit is equal to 75% of the individual employee's last contract salary, exclusive of extra duty and co-curricular salary, if any, unless the position with a sport/activity has been held for fifteen consecutive years immediately preceding retirement. The liability is recorded based upon the specified annual payments that are due and has not been discounted as the School District has determined the discount to not be material.

Note 9 - Joint Venture

The School District participates in the Northeast Technical High School, a cooperative service unit (Co-op) formed for the purpose of providing vocational training services to the member school districts.

The percentage participation in the Co-op and annual assessments is adjusted annually based upon each member school district's official state enrollment numbers from the previous school year. The members of the Co-op and their relative percentage participation in the Co-op as of June 30, 2023, are as follows:

Castlewood School District No. 28-1	4.37%
Florence School District No. 14-1	4.11%
Great Plains Lutheran School	6.68%
Hamlin School District No. 28-3	12.38%
Henry School District No. 14-2	2.67%
Summit School District No. 54-6	2.62%
Watertown School District No. 14-4	63.21%
Waverly South Shore School District 14-5	3.96%
	<u>100.00%</u>

The Co-op's governing board is composed of three members from the school board of the largest member school district and one member from the school board from each remaining member school district. The governing 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 explicit, measurable equity interest in the net position of the Co-op, but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation described above. Separate financial statements for the Co-op are available from the Northeast Technical High School.

At June 30, 2023, the Co-op had total assets of \$1,588,022, total liabilities of \$127,365, and net position of \$1,460,658.

Note 10 - Post-Employment Healthcare Plan

Plan Description

The School District has a single-employer, defined-benefit healthcare plan administered by Wellmark, Inc. The plan provides medical insurance benefits to eligible retirees and their spouses as permitted by South Dakota Codified Law 6-1-16 and 13-10-3. Benefit provisions were established and may be amended during the negotiated agreement process between School District certified staff and the governing board. The health plan does not issue separately stated stand-alone financial statements.

Benefits Provided

The contribution requirements of plan members and the School District are established and may be amended during the negotiated agreement process between the School District's certified staff and the governing board. A full-time salaried employee who retires from the School District may be eligible for retiree health insurance coverage if they were hired prior to August 1, 2008. Employees hired after August 1, 2008, are not eligible for OPEB. Employees who leave or have previously left the School District are not eligible for retirement benefits if they are re-employed after August 1, 2008. Coverage also ceases when the retiree attains the age of 65. The retiree is responsible for 100% of the full active premium rates for either single or family coverage.

Funding Policy

The School District funds the OPEB benefits on a pay-as-you-go basis; therefore, the School District's obligation is unfunded at June 30, 2023. There are no assets accumulated in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

Employees Covered by Benefit Terms

At the valuation date of July 1, 2022, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	49
Active employees	152
	<u>201</u>

Total OPEB Liability

The School District's total OPEB liability of \$2,051,087 was measured as of June 30, 2023, and was determined by an actuarial valuation as of July 1, 2022.

Actuarial Assumptions

The total OPEB liability in the July 1, 2022, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary increases	7.66% at entry to 3.15% after 25 years of service
Discount rate	3.54% *
Healthcare cost trend rates	10.00% for FY23 then reduced to ultimate rate of 3.94%

*Since the plan is not funded by an irrevocable trust, the discount rate is equal to the Bond Buyer 20-Bond General Obligation Index.

The plan has not had a formal actuarial experience study performed.

Other Assumptions**Mortality**

Teachers/Admin (Certified)
Healthy Pre-Retirement

Healthy Post-Retirement

PubT-2010 mortality table rates. Mortality rates are projected generationally with MP-2020.

PubT-2010 mortality table rates adjusted to 108% for rates at age 65 and older. Mortality rates are projected generationally with MP-2020.

Non-Teachers/Admin (Certified)
Healthy Pre-Retirement

Healthy Post-Retirement

PubG-2010 mortality table rates. Mortality rates are projected generationally with MP-2020.

PubG-2010 mortality table rates adjusted to 93% for rates at ages less than 75, with the adjustment increased by 2% per year beginning at age 75 until reaching 111% of rates at age 83 and older. Mortality rates are projected generationally with MP-2020.

Future Retiree Participation Rate	65%	
Initial Spouse Participation Rate	35%	
Age Difference	Husbands are assumed to be the same age as their wife.	
Turnover	Rates based on select and ultimate table with rates based on service for the first five years of employment and rates based on age after five years of employment.	
Disability	None assumed	
Balance at June 30, 2022		\$ 1,941,788
Service cost		46,564
Interest cost		73,851
Difference between expected and actual experience		58,925
Changes of assumptions		85,804
Benefit payments		(155,845)
Total changes		109,299
Balance at June 30, 2023		<u>\$ 2,051,087</u>

Sensitivity of the Total OPEB Liability to Changes in Discount Rate and the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the School District, as well as what the School District's total OPEB liability would be if it were calculated using a discount rate 1 percentage point lower and 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
Discount Rate	2.54%	3.54%	4.54%
Total OPEB Liability	\$ 2,154,717	\$ 2,051,087	\$ 1,951,313

The following presents the total OPEB liability of the School District, as well as what the School District's total OPEB liability would be if it were calculated using a healthcare cost trend rate 1 percentage point lower and 1 percentage point higher than the current healthcare cost trend rate:

	<u>1% Decrease in Healthcare Trend Rate</u>	<u>Selected Healthcare Trend Rate</u>	<u>1% Increase in Healthcare Trend Rate</u>
Healthcare Trend Rate	9.00%	10.00%	11.00%
Total OPEB Liability	\$ 1,925,305	\$ 2,051,087	\$ 2,190,046

OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB

For the year ended June 30, 2023, the School District recognized a decrease of health insurance expense of \$238,678 due to OPEB. At June 30, 2023, the School District reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 54,187	\$ 373,332
Changes of assumptions	141,512	213,545
Total	<u>\$ 195,699</u>	<u>\$ 586,877</u>

Deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ended June 30,	OPEB Expense
2024	\$ 244,178
2025	176,539
2026	<u>(29,539)</u>
	<u>\$ 391,178</u>

Note 11 - Litigation

At June 30, 2023, the School District was not involved in any litigation.

Note 12 - 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 year ended June 30, 2023, the School District managed its risks as follows:

Employee Health Insurance

The School District has established a self-insurance fund for the purpose of paying claims of the employee group health care benefit plan. Premiums are paid by both the School District and the School District's employees and are charged against the appropriate fund. Excess loss insurance is provided through private insurance carriers for claims exceeding \$100,000 per individual and \$5,176,070 or 125% of expected paid claims in aggregate losses for each plan year. At June 30, 2023, an estimated liability of \$474,311 was accrued for incurred but not reported claims. This estimate was based on information obtained from the plan's third-party administrator. The self-insurance fund is reported as an internal service fund in these financial statements.

The School District is responsible for deficiencies, if any, resulting from claims paid in excess of premiums received. At June 30, 2023, the health insurance internal service fund had a net position balance of \$3,383,667.

The following is a history of the claims activity for the fund for the years ended June 30, 2023, 2022, and 2021, respectively.

	2023	2022	2021
Amount of claim liabilities, beginning of year	\$ 936,877	\$ 623,789	\$ 827,803
Incurred claims	9,004,662	7,421,651	5,978,657
Claims paid	(9,168,504)	(7,108,563)	(6,182,671)
Amount of claim liabilities, end of year	<u>\$ 773,035</u>	<u>\$ 936,877</u>	<u>\$ 623,789</u>

Workers' Compensation Insurance

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool (the Fund) which provide workers' compensation insurance coverage for participating members of the Fund. The objective of the Fund is to formulate, develop and administer, on behalf of the member organizations, a program of workers' compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to, and cooperate with, the Fund to resolve any worker's compensation claims. The School District pays an annual premium to provide workers' compensation coverage for its employees under a retrospectively rated policy, and the premiums are accrued based on the ultimate cost of the experience-to-date of the Fund members. The School District may also be responsible for additional assessments in the event the Fund is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the Fund of all participants for the year in which the shortfall occurs. The Fund provides loss coverage to all participants through pool-retained risk retention and through insurance coverage purchased by the Fund in excess of the retained risk. The Fund pays the first \$500,000 of any claim per individual. The Fund has reinsurance which covers up to \$1,000,000 per individual, per incident.

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

Liability Insurance

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

Unemployment Benefits

The School District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. During the year ended June 30, 2023, no claims were filed for unemployment benefits and none are anticipated in the next fiscal year.

Note 13 - Pension Plan**Plan Information**

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

Benefits Provided

SDRS has four classes of members: Class A general members, Class B public safety and judicial members, Class C Cement Plant Retirement Fund Members, and Class D Department of Labor and Regulation members. Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85, or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

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

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

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

Legislation enacted in 2021 reduced the minimum COLA from 0.5% to 0.0%.

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% of salary; Class B judicial members, 9% of salary; and, Class B public safety members, 8% 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, 2023, 2022, and 2021, were \$2,204,321, \$2,116,157, and \$2,079,919, respectively, equal to the required contributions each year.

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

At June 30, 2022, SDRS is 100.10% funded and, accordingly, has a net pension asset. The proportionate share of the components of the net pension asset of the SDRS, for the School District as of the measurement period ending June 30, 2022, and reported by the School District as of June 30, 2023, are as follows:

Proportionate share of total pension liability	\$ 208,507,125
Less proportionate share of net position restricted for pension benefits	<u>208,646,714</u>
Proportionate share of net pension liability (asset)	<u>\$ (139,589)</u>

At June 30, 2023, the School District reported a liability (asset) of (\$139,589) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2022, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the School District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2022, the School District's proportion was 1.477033%, which is a decrease of .050529% from its proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the School District recognized a reduction of pension expense of \$721,293. At June 30, 2023, 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	\$ 2,657,180	\$ 9,062
Changes in assumption	8,871,842	7,774,983
Net difference between projected and actual earnings on pension plan investments	-	334,521
Changes in proportion and difference between School District contributions and proportionate share of contributions	89,850	-
School District contributions subsequent to the measurement date	2,204,321	-
Total	<u>\$ 13,823,193</u>	<u>\$ 8,118,566</u>

There is \$2,204,321 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date. This will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. 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:	Amount
2024	\$ 951,768
2025	1,962,682
2026	(2,188,411)
2027	2,774,267
Total	<u>\$ 3,500,306</u>

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service.
Discount rate	6.50% net of plan investment expense. This is composed of an average inflation rate of 2.50% and real returns of 4.00%.
Future COLAs	2.10%

Mortality Rates

All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020

Active and Terminated Vested Members:

Teachers, Certified Regents, and Judicial: PubT-2010

Other Class A Members: PubG-2010

Public Safety Members: PubS-2010

Retired Members:

Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65

Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above

Public Safety Retirees: PubS-2010, 102% of rates at all ages

Beneficiaries:

PubG-2010 contingent survivor mortality table

Disabled Members:

Public Safety: PubS-2010 disabled member mortality table

Others: PubG-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2022, valuation were based on the results of an actuarial experience study for the period of July 1, 2016 to June 30, 2021.

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 weighting 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, 2022, (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%	3.7%
Fixed Income	30.0%	1.1%
Real Estate	10.0%	2.6%
Cash	2.0%	0.4%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of Liability (Asset) to Changes in the Discount Rate

The following presents the School District's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50% 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% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net pension liability (asset)	\$ 28,984,348	\$ (139,589)	\$ (23,941,540)

Pension Plan Fiduciary Net Position

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

Note 14 - Interfund Balances and Interfund Transfers

At June 30, 2023, the following funds had interfund balances:

- The LATC Post Secondary Fund has a due from the Bookstore Fund in the amount of \$1,018.
- The Food Service Fund has a due from the LATC Daycare Fund in the amount of \$1,750.
- The Bookstore Fund has a due from the LATC Post Secondary Fund in the amount of \$143.
- The LATC Food Service Fund has a due from the LATC Post Secondary Fund in the amount of \$24,771.

The purpose of the interfund balances is for reimbursement of expenses that were incurred during 2023 but not reimbursed until subsequent to June 30, 2023.

During the year ended June 30, 2023, the following interfund transfers occurred:

- The Capital Outlay Fund transferred \$600,000 to the General Fund to cover certain operating expenses.
- The LATC Post Secondary Fund transferred \$15,000 to the Financial Aid Fund to cover certain operating expenses.
- The LATC Post Secondary Fund transferred \$2,000,000 to the Capital Outlay Fund to cover certain operating expenses.

Note 15 - Subsequent Events

In November 2023, the School District accepted a bid for work on the Phase II of the Athletic Complex in total bid of \$11,381,370. In December 2023, the School District accepted a bid in the total amount of \$1,281,735 for the Dental Assisting Remodel at LATC.



Required Supplementary Information
June 30, 2023

Watertown School District No. 14-4

Watertown School District No. 14-4
Schedule of Changes in the District's Total OPEB Liability and Related Ratios
Year Ended June 30, 2023

	2023	2022	2021	2020	2019
Service cost	\$ 46,564	\$ 74,913	\$ 82,209	\$ 111,696	\$ 108,198
Interest	73,851	48,401	52,830	113,690	118,609
Difference between expected and actual experience	58,925	(141,254)	(908,081)	-	119,057
Changes of assumptions	85,804	(138,556)	(430,472)	255,710	296,745
Benefit payments	(155,845)	(134,502)	(118,842)	(124,076)	(114,872)
Net change in total OPEB liability	109,299	(290,998)	(1,322,356)	357,020	527,737
Total OPEB liability - beginning	1,941,788	2,232,786	3,555,142	3,198,122	2,670,385
Total OPEB liability - ending	<u>\$ 2,051,087</u>	<u>\$ 1,941,788</u>	<u>\$ 2,232,786</u>	<u>\$ 3,555,142</u>	<u>\$ 3,198,122</u>
Covered-employee payroll	\$ 9,181,127	\$ 11,147,044	\$ 11,612,670	\$ 13,608,038	\$ 14,158,927
District's total OPEB liability as a percentage of covered-employee payroll	22.34%	17.42%	19.23%	26.13%	22.59%

*GASB Statement No. 75 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the School District will present information for those years for which information is available.

Plan Assets

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Benefit Provision Changes

None.

Changes in Assumptions

Since the last valuation, the following changes of assumptions have been made:

- Medical plans and premiums have been updated effective as of January 1, 2022, and January 1, 2023.
- The discount rate, based on the Bond Buyer 20-Bond General Obligation Index, has been updated through the July 1, 2022, valuation date.
- The valuation's first fiscal year 2023 retiree per capita claims costs and blended premiums are based on plans and premiums as of January 1, 2022, and census data as of September 1, 2022. Second fiscal year 2024 amounts are 8.40% higher based on increased premiums effective January 1, 2023.
- Decrement assumptions (i.e. withdrawal, retirement and mortality rates) and salary increase rates are the same assumptions used in the June 30, 2022, SDRS actuarial valuation.
- Medical trend assumption is developed based on the recent published SOA-Getzen trend rate model update for 2022 - 2030+.
- The general inflation rate was changed to the 2.50% rate used in the June 30, 2022, SDRS actuarial valuation (from 2.25%).

Watertown School District No. 14-4
Budgetary Comparison Schedule – Budgetary Basis – General Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 10,077,755	\$ 10,077,755	\$ 10,933,469	\$ 855,714
1120 Prior year's ad valorem taxes	50,000	50,000	24,027	(25,973)
1130 Tax deed revenue	-	-	6,795	6,795
1140 Gross receipts taxes	350,000	350,000	269,511	(80,489)
1190 Penalties and interest on taxes	25,000	25,000	14,447	(10,553)
1210 Revenue in lieu of taxes	8,000	8,000	8,466	466
1500 Earnings (losses) on investments and deposits	55,000	55,000	63,707	8,707
1700 Co-curricular activities:				
1710 Admissions	80,000	80,000	60,493	(19,507)
1790 Other student activity income	42,000	42,000	471,966	429,966
1900 Other revenue from local sources:				
1910 Rentals	142,500	142,500	135,492	(7,008)
1970 Charges for services	40,000	40,000	62,699	22,699
1990 Other	314,775	314,775	455,973	141,198
2000 Revenue from intermediate sources				
2100 County sources:				
2110 County apportionment	430,000	430,000	337,129	(92,871)
2200 Revenue in lieu of taxes	20,000	20,000	11,973	(8,027)
2900 Other revenue county sources	-	-	111,921	111,921
3000 Revenue from state sources				
3100 Grants-in-aid:				
3110 Unrestricted grants-in-aid	14,938,820	14,938,820	13,676,333	(1,262,487)
3120 Restricted grants-in-aid	36,125	36,125	59,307	23,182
3900 Other state revenue	12,000	12,000	8,655	(3,345)
4000 Revenue from federal sources				
4100 Grants-in-aid:				
4130 Unrestricted grants-in-aid received from federal government through an intermediate source	3,500	3,500	1,592	(1,908)
4150-4199 Restricted grants-in-aid received from federal government through the state	1,817,000	2,111,700	1,984,832	(126,868)
4900 Other federal revenue	85,000	85,000	-	(85,000)
Total revenues	28,527,475	28,822,175	28,698,787	(123,388)

Watertown School District No. 14-4
Budgetary Comparison Schedule – Budgetary Basis – General Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
1000 Instruction				
1100 Regular programs:				
1110 Elementary schools	9,067,750	9,101,565	8,448,596	652,969
1120 Middle/junior high schools	2,427,735	2,444,780	2,395,900	48,880
1130 High school	4,584,625	4,584,625	4,493,615	91,010
1140 Preschool services	74,880	74,880	73,129	1,751
1200 Special programs:				
1210 Gifted and talented	103,610	103,610	98,936	4,674
1250 Culturally different	130,405	150,955	138,322	12,633
1270 Educationally deprived	462,135	561,766	547,864	13,902
1290 Other special programs	553,070	553,070	494,004	59,066
2000 Support services				
2100 Pupils:				
2110 Attendance and social work	287,415	287,415	207,645	79,770
2120 Guidance	829,242	845,121	812,004	33,117
2130 Health	269,660	269,660	252,997	16,663
2200 Support services - instructional staff:				
2210 Improvement of instruction	370,638	451,988	419,002	32,986
2220 Educational media	1,160,800	1,160,800	1,110,776	50,024
2300 Support services - general administration:				
2310 Board of Education	114,505	114,505	86,363	28,142
2320 Executive administration	586,450	586,450	575,583	10,867
2400 Support services - school administration:				
2410 Office of the Principal	1,966,535	1,966,535	1,950,816	15,719
2440 Title I program administration	48,200	69,630	67,113	2,517
2490 Other support services	66,965	66,965	67,350	(385)
2500 Support services - business:				
2520 Fiscal services	567,990	567,990	855,832	(287,842)
2540 Operation and maintenance of plant	3,126,650	3,126,650	3,006,747	119,903
2550 Pupil transportation	1,161,825	1,166,825	1,031,304	135,521
2570 Internal services	-	-	110	(110)
2600 Support services - central:				
2620 Planning	59,335	59,335	65,606	(6,271)
3000 Community services				
3700 Nonpublic school	116,040	116,040	81,480	34,560
4000 Nonprogrammed costs				
4400 Payments to state - unemployment	35,000	35,000	-	35,000
4500 Early retirement payments	822,345	822,345	818,168	4,177
5000 Debt Services	-	-	56,068	(56,068)
6000 Co-curricular activities				
6100 Male activities	219,810	240,435	238,133	2,302
6200 Female activities	219,040	242,405	242,760	(355)
6500 Transportation	146,800	168,210	204,432	(36,222)
6900 Combined activities	687,325	687,325	1,277,630	(590,305)
Total expenditures	30,266,780	30,626,880	30,118,285	508,595
Excess of Revenue over (under) Expenditures	(1,739,305)	(1,804,705)	(1,419,498)	385,207

Watertown School District No. 14-4
 Budgetary Comparison Schedule – Budgetary Basis – General Fund
 Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Financing Sources (Uses)				
5110 Transfers in	600,000	600,000	600,000	-
5124 Lease proceeds	-	-	271,224	271,224
Total other financing sources	600,000	600,000	871,224	271,224
Net Change in Fund Balances	(1,139,305)	(1,204,705)	(548,274)	656,431
Fund Balance - Beginning	7,941,297	7,941,297	7,941,297	-
Fund Balance - Ending	<u>\$ 6,801,992</u>	<u>\$ 6,736,592</u>	<u>\$ 7,393,023</u>	<u>\$ 656,431</u>

Watertown School District No. 14-4
Budgetary Comparison Schedule – Budgetary Basis – Capital Outlay Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 7,185,000	\$ 7,185,000	\$ 7,149,526	\$ (35,474)
1120 Prior year's ad valorem taxes	25,000	25,000	14,169	(10,831)
1190 Penalties and interest on taxes	10,000	10,000	8,948	(1,052)
1500 Earnings (losses) on investments and deposits	200,000	200,000	37,766	(162,234)
1900 Other revenue from local sources:				
1920 Contributions and donations	-	-	115,000	115,000
1990 Other	68,000	68,000	54,002	(13,998)
4000 Revenue from federal sources				
4100 Grants-in-aid:				
4150-4199 Restricted grants-in-aid received from federal government through the state	330,000	420,000	317,084	(102,916)
Total revenues	7,818,000	7,908,000	7,696,495	(211,505)
Expenditures				
1000 Instruction				
1100 Regular programs:				
1110 Elementary schools	1,017,850	1,017,850	826,313	191,537
1120 Middle/junior high schools	45,000	45,000	43,391	1,609
1130 High school	330,900	380,900	340,653	40,247
1200 Special programs:				
1220 Programs for special education	17,000	17,000	4,120	12,880
2000 Support services				
2200 Support services - instructional staff:				
2300 Support services - general administration:				
2320 Executive administration	5,000	5,000	-	5,000
2500 Support services - business:				
2520 Fiscal services	24,650	24,650	23,043	1,607
2540 Operation and maintenance of plant	5,430,250	8,605,125	8,349,607	255,518
2550 Pupil transportation	90,500	130,500	116,069	14,431
5000 Debt services	2,758,985	2,758,985	2,355,323	403,662
6000 Co-curricular activities				
6900 Combined activities	88,000	106,190	106,581	(391)
Total expenditures	9,808,135	13,091,200	12,165,100	926,100
Excess of Revenue over (under) Expenditures	(1,990,135)	(5,183,200)	(4,468,605)	714,595
Other Financing Sources (Uses)				
5110 Transfers in	1,000,000	2,000,000	2,000,000	-
8110 Transfers out	(600,000)	(600,000)	(600,000)	-
5130 Sale of surplus property	85,000	85,000	99,960	14,960
Total other financing sources	485,000	1,485,000	1,499,960	14,960
Net Change in Fund Balances	(1,505,135)	(3,698,200)	(2,968,645)	729,555
Fund Balance - Beginning	10,038,294	10,038,294	10,038,294	-
Fund Balance - Ending	\$ 8,533,159	\$ 6,340,094	\$ 7,069,649	\$ 729,555

Watertown School District No. 14-4
Budgetary Comparison Schedule – Budgetary Basis – Special Education Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 3,668,900	\$ 3,668,900	\$ 4,458,936	\$ 790,036
1120 Prior year's ad valorem taxes	13,200	13,200	8,480	(4,720)
1190 Penalties and interest on taxes	6,000	6,000	5,412	(588)
1300 Tuition and fees:				
1310 Regular day school tuition	15,000	15,000	-	(15,000)
1500 Earnings (losses) on investments and deposits	6,000	6,000	4,376	(1,624)
1900 Other revenue from local sources:				
1970 Charges for services	75,000	75,000	47,860	(27,140)
1990 Other	1,000	1,000	501	(499)
3000 Revenue from state sources				
3100 Grants-in-aid:				
3120 Restricted grants-in-aid	2,263,840	2,263,840	2,125,939	(137,901)
4000 Revenue from federal sources				
4100 Grants-in-aid:				
4150-4199 Restricted grants-in-aid received from federal government through the state	972,900	1,060,520	1,130,560	70,040
Total revenues	<u>7,021,840</u>	<u>7,109,460</u>	<u>7,782,064</u>	<u>672,604</u>
Expenditures				
1000 Instruction				
1200 Special programs:				
1220 Programs for special education	5,428,210	5,453,210	5,277,607	175,603
1230 Coordinated early intervening services instruction	13,500	13,500	1,281	12,219
2000 Support services				
2100 Pupils:				
2130 Health	129,210	191,830	179,564	12,266
2140 Psychological	364,370	364,370	359,815	4,555
2150 Speech pathology	778,610	868,610	781,511	87,099
2160 Audiology services	20,000	20,000	7,599	12,401
2170 Student therapy services	489,895	489,895	441,494	48,401
2200 Support services - instructional staff:				
2210 Improvement of instruction	96,040	96,040	94,142	1,898
2220 Educational media	22,000	22,000	29,918	(7,918)
2600 Support services - central:				
2620 Planning	29,985	29,985	-	29,985
2700 Support services - special education:				
2710 Administrative costs	209,205	209,205	180,058	29,147
2730 Transportation costs	138,125	138,125	114,589	23,536
2750 Other special education costs	50,000	50,000	29,068	20,932
5000 Debt Service	-	-	935	(935)
Total expenditures	<u>7,769,150</u>	<u>7,946,770</u>	<u>7,497,581</u>	<u>449,189</u>
Excess of Revenue over (under) Expenditures	<u>(747,310)</u>	<u>(837,310)</u>	<u>284,483</u>	<u>1,121,793</u>
Other Financing Sources (Uses)				
5124 Lease proceeds	-	-	4,523	4,523
Total other financing sources	<u>-</u>	<u>-</u>	<u>4,523</u>	<u>4,523</u>
Net Change in Fund Balances	<u>(747,310)</u>	<u>(837,310)</u>	<u>289,006</u>	<u>1,126,316</u>
Fund Balance - Beginning	<u>678,200</u>	<u>678,200</u>	<u>678,200</u>	<u>-</u>
Fund Balance - Ending	<u>\$ (69,110)</u>	<u>\$ (159,110)</u>	<u>\$ 967,206</u>	<u>\$ 1,126,316</u>

Watertown School District No. 14-4
Budgetary Comparison Schedule – Budgetary Basis – LATC Post Secondary Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1400 Post secondary program tuition and fees	\$ 7,440,000	\$ 7,440,000	\$ 7,616,526	\$ 176,526
1500 Earnings (losses) on investments and deposits	100,000	100,000	43,836	(56,164)
1700 Co-curricular activities:				
1800 Post secondary:				
1820 Resales/services - occupational programs	216,000	216,000	328,568	112,568
1830 Resales/services - parts department	220,000	220,000	258,771	38,771
1840 State fees	798,870	798,870	781,540	(17,330)
1850 Corporate education fees	300,000	300,000	580,909	280,909
1860 Local fees	3,674,310	3,674,310	3,855,710	181,400
1900 Other revenue from local sources:				
1910 Rentals	314,400	314,400	190,250	(124,150)
1920 Contributions and donations	156,225	7,656,225	5,264,020	(2,392,205)
1970 Charges for services	-	-	115,794	115,794
1990 Other	537,500	537,500	1,009,452	471,952
3000 Revenue from state sources				
3100 Grants-in-aid:				
3110 Unrestricted grants-in-aid	7,690,025	7,690,025	7,716,852	26,827
3120 Restricted grants-in-aid	1,868,650	1,972,650	2,707,235	734,585
3900 Other state revenue	5,829,500	8,505,250	7,694,414	(810,836)
4000 Revenue from federal sources				
4100 Grants-in-aid:				
4140 Restricted grants-in-aid received directly from federal government	-	285,355	236,071	(49,284)
4150-4199 Restricted grants-in-aid received from federal government through the state	695,333	795,333	618,093	(177,240)
4900 Other federal revenue	2,000	2,000	1,904	(96)
Total revenues	<u>29,842,813</u>	<u>40,507,918</u>	<u>39,019,945</u>	<u>(1,487,973)</u>

Watertown School District No. 14-4
Budgetary Comparison Schedule – Budgetary Basis – LATC Post Secondary Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
1000 Instruction				
1300 Adult continuing education programs:				
1390 Other adult continuing education programs	199,170	199,170	185,336	13,834
1500-1999 Post secondary occupational programs	14,964,587	15,936,737	14,880,033	1,056,704
2000 Support services				
2100 Pupils:				
2120 Guidance	2,491,636	2,837,386	2,736,719	100,667
2200 Support services - instructional staff:				
2210 Improvement of instruction	541,350	558,500	445,920	112,580
2220 Educational media	1,303,035	1,315,035	944,541	370,494
2300 Support services - general administration:				
2310 Board of Education	53,325	53,325	60,416	(7,091)
2320 Executive administration	432,280	432,280	417,217	15,063
2400 Support services - school administration:				
2420 Vocational school - directors office	873,900	873,900	862,024	11,876
2430 Financial aid administration	389,635	389,635	333,060	56,575
2490 Other support services	302,135	302,135	279,841	22,294
2500 Support services - business:				
2520 Fiscal services	294,090	294,090	366,714	(72,624)
2530 Facilities acquisition and construction	10,865,000	17,930,000	14,410,376	3,519,624
2540 Operation and maintenance of plant	1,987,665	2,177,665	1,959,622	218,043
2800 Resale services:				
2810 Post secondary resales/service	20,000	20,000	2,293	17,707
2820 RIS - precision production	260,170	295,170	319,316	(24,146)
2900 Other support services	20,000	20,000	24,852	(4,852)
4000 Nonprogrammed charges				
4400 Payments to state - unemployment	5,000	5,000	-	5,000
4500 Early retirement payments	275,520	275,520	275,517	3
5000 Debt service	-	-	59,817	(59,817)
6000 Co-curricular activities				
6900 Combined activities	-	-	289,259	(289,259)
Total expenditures	35,278,498	43,915,548	38,852,873	5,062,675
Excess of Revenue over (under) Expenditures	(5,435,685)	(3,407,630)	167,072	3,574,702
Other Financing Sources (Uses)				
8110 Transfers out	(1,000,000)	(2,000,000)	(2,015,000)	(15,000)
5124 Lease proceeds	-	-	291,529	291,529
5130 Sale of surplus property	1,000	1,000	103,500	102,500
Total other financing uses	(999,000)	(1,999,000)	(1,619,971)	379,029
Net Change in Fund Balances	(6,434,685)	(5,406,630)	(1,452,899)	3,953,731
Fund Balance - Beginning	8,587,259	8,587,259	8,587,259	-
Fund Balance - Ending	\$ 2,152,574	\$ 3,180,629	\$ 7,134,360	\$ 3,953,731

Watertown School District No. 14-4
 Budgetary Comparison Schedule – Budgetary Basis – Financial Aid Fund
 Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1500 Earnings on investments and deposits	\$ 1,800	\$ 1,800	\$ -	\$ (1,800)
1900 Other revenue from local sources:				
1990 Other	128,000	128,000	27,976	(100,024)
3000 Revenue from state sources				
3100 Grants-in-aid:				
3120 Restricted grants-in-aid	93,000	93,000	114,599	21,599
4000 Revenue from federal sources				
4100 Grants-in-aid:				
4140 Restricted grants-in-aid received directly from federal government	12,899,850	12,899,850	9,633,481	(3,266,369)
Total revenues	13,122,650	13,122,650	9,776,056	(3,346,594)
Expenditures				
4000 Nonprogrammed charges				
4200 Student financial aid	13,122,650	13,122,650	9,789,919	3,332,731
Total expenditures	13,122,650	13,122,650	9,789,919	3,332,731
Excess of Revenue over (under) Expenditures	-	-	(13,863)	(13,863)
Other Financing Sources (Uses)				
5110 Transfers in	-	-	15,000	(15,000)
Total other financing sources	-	-	15,000	(15,000)
Net Change in Fund Balances	-	-	1,137	(28,863)
Fund Balance - Beginning	6,335	6,335	6,335	-
Fund Balance - Ending	\$ 6,335	\$ 6,335	\$ 7,472	\$ (28,863)

Note 1 - Budgets and Budgetary Accounting

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

1. Prior to the first regular School Board meeting in May of each year, the School Board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the School Board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the School Board, the operating budget is legally binding 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% of the total School District budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when money is available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
11. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Note 2 - U.S. GAAP and Budgetary Accounting Basis Differences

The School District is reporting financial position, results of operations, and changes in fund balances on the basis of GAAP, while the budgetary comparison schedules are presented on the budgetary basis to provide meaningful comparison of actual results with the budget. There are no major differences between the budgetary basis and the GAAP basis presented.

Watertown School District No. 14-4
Schedule of Employer's Share of Net Pension Liability (Asset)
Year Ended June 30, 2023

Pension Plan	Fiscal Year Ending	Employer's Percentage of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
SDRS	6/30/2023	1.4770%	\$ (139,589)	\$ 35,248,226	-0.4%	100.10%
SDRS	6/30/2022	1.5276%	(11,698,510)	34,635,807	-33.8%	105.52%
SDRS	6/30/2021	1.5062%	(65,414)	33,028,183	-0.2%	100.04%
SDRS	6/30/2020	1.5163%	(160,684)	32,173,075	-0.5%	100.09%
SDRS	6/30/2019	1.5309%	(35,703)	31,818,773	-0.1%	100.02%
SDRS	6/30/2018	1.5315%	(138,984)	31,084,082	-0.4%	100.10%
SDRS	6/30/2017	1.4677%	4,957,654	27,889,214	17.8%	96.89%
SDRS	6/30/2016	1.4888%	(6,314,461)	27,170,807	-23.2%	104.10%
SDRS	6/30/2015	1.4482%	(10,433,894)	25,294,680	-41.2%	107.30%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the School District will present information for those years for which information is available.

Note: The information disclosed for each fiscal year is reported as of the measurement date of the net pension liability (asset) which is June 30 of the preceding fiscal year.

Watertown School District No. 14-4

Schedule of Employer's Contributions

Year Ended June 30, 2023

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
SDRS	6/30/2023	\$ 2,204,321	\$ 2,204,321	\$ -	\$ 36,714,974	6.0%
SDRS	6/30/2022	2,116,157	2,116,157	-	35,248,226	6.0%
SDRS	6/30/2021	2,079,919	2,079,919	-	34,635,807	6.0%
SDRS	6/30/2020	1,983,411	1,983,411	-	33,028,183	6.0%
SDRS	6/30/2019	1,934,456	1,934,456	-	32,173,075	6.0%
SDRS	6/30/2018	1,909,134	1,909,134	-	31,818,773	6.0%
SDRS	6/30/2017	1,866,698	1,866,698	-	31,084,082	6.0%
SDRS	6/30/2016	1,673,671	1,673,671	-	27,889,214	6.0%
SDRS	6/30/2015	1,630,885	1,630,885	-	27,170,807	6.0%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the School District will present information for those years for which information is available.

Changes from Prior Valuation

The June 30, 2022, actuarial valuation reflects numerous changes to the actuarial assumptions as a result of an experience analysis completed since the June 30, 2021, actuarial valuation. In addition, two changes in actuarial methods have been implemented since the prior valuation.

The details of the changes since the last valuation are as follows:

Benefit Provision Changes

During the 2022 legislative session, no significant SDRS benefit changes were made and gaming enforcement agents became Class B public safety members.

Actuarial Assumption Changes

As a result of an experience analysis covering the period from July 1, 2016 to June 30, 2021, and presented to the SDRS Board of Trustees in April and June 2022, significant changes to the actuarial assumptions were recommended by the SDRS Senior Actuary and adopted by the Board of Trustees, first effective for this June 30, 2022, actuarial valuation.

The changes to economic assumptions included increasing the price inflation to 2.50% and increasing the wage inflation to 3.15%. The current assumed investment return assumption of 6.50% was retained, lowering the assumed real investment return to 4.00%. The baseline COLA assumption of 2.25% was also retained. Salary increase assumptions were modified to reflect the increase in assumed wage inflation and recent experience. The assumed interest on accumulated contributions was decreased to 2.25%.

The demographic assumptions were also reviewed and revised. The mortality assumption was changed to the Pub-2010 amount-weighted tables using separate tables for teachers, general, and public safety retirees, with assumptions for retirees adjusted based on credible experience. The mortality assumption for active and terminated vested members was changed to the unadjusted amount-weighted Pub-2010 tables, again by member classification, and the assumption for beneficiaries was changed to the amount-weighted Pub-2010 general contingent survivor table. Adjustments based on experience were also made to the assumptions regarding retirement, termination, disability, age of spouses for married Foundation members, percentage of terminated vested members electing a refund, and benefit commencement age for terminated vested Public Safety members with 15 or more years of service.

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% (0.5% prior to 2021) and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that, if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%.

As of June 30, 2021, the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was greater than 100% and the full 0% to 3.5% COLA range was payable. For the June 30, 2021, actuarial valuation, future COLAs were assumed to equal the baseline COLA assumption of 2.25%.

As of June 30, 2022, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is less than 100% and the July 2023 SDRS COLA is limited to a restricted maximum of 2.10%. The July 2023 SDRS COLA will equal inflation, between 0% and 2.10%. For this June 30, 2022, actuarial valuation, future COLAs were assumed to equal the restricted maximum COLA of 2.10%.

Actuarial assumptions are reviewed for reasonability annually and reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2027, actuarial valuation, and any recommended changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2027, actuarial valuation.

Actuarial Method Changes

Actuarial method changes with minor impact were implemented for this valuation after recommendation by Cavanaugh Macdonald Consulting as part of their reviews of prior valuations. As a result, liabilities and normal costs for refund benefits and the Generational Variable Retirement Account are now calculated using the entry age normal cost method with normal costs based on the expected value of these accounts rather than the actual balance.



Supplementary Information
June 30, 2023

Watertown School District No. 14-4

Watertown School District No. 14-4
Combining Balance Sheets – Nonmajor Governmental Funds
June 30, 2023

	Perkins Fund	Arrow Education Foundation	Totals
Assets			
101 Cash and cash equivalents	\$ 79,416	\$ 164,720	\$ 244,136
180 Investments	-	2,918,237	2,918,237
120 Accounts receivable, net	-	-	-
192 Prepaid expenses	-	3,440	3,440
	<u>\$ 79,416</u>	<u>\$ 3,086,397</u>	<u>\$ 3,165,813</u>
Liabilities			
402 Accounts payable	\$ -	\$ 21,547	\$ 21,547
Total liabilities	<u>-</u>	<u>21,547</u>	<u>21,547</u>
Fund Balances			
720 Restricted for:			
Perkins	79,416	-	79,416
Arrow Education Foundation	-	3,064,850	3,064,850
Total fund balances	<u>79,416</u>	<u>3,064,850</u>	<u>3,144,266</u>
	<u>\$ 79,416</u>	<u>\$ 3,086,397</u>	<u>\$ 3,165,813</u>

Watertown School District No. 14-4
Combining Statements of Revenues, Expenditures, and Changes in Fund Balances –
Nonmajor Governmental Funds
Year Ended June 30, 2023

	Perkins Fund	Arrow Education Foundation	Totals
Revenues			
1000 Revenue from local sources			
1500 Earnings on investments and deposits	\$ 7	\$ 192,515	\$ 192,522
1800 Post secondary:			
1860 Local fees	8,110	-	8,110
1900 Other revenue from local sources:			
1920 Contributions and donations	-	360,255	360,255
1990 Other	-	50,094	50,094
	<u>8,117</u>	<u>602,864</u>	<u>610,981</u>
Total revenues			
Expenditures			
2000 Support services			
2500 Support services - business:			
2520 Fiscal services	-	129,842	129,842
2590 Other	-	30,907	30,907
4000 Nonprogrammed charges			
4200 Student financial aid	11,039	-	11,039
4900 Other nonprogrammed costs	-	454,636	454,636
	<u>11,039</u>	<u>615,385</u>	<u>626,424</u>
Total expenditures			
Excess of Revenue over (under) Expenditures	<u>(2,922)</u>	<u>(12,521)</u>	<u>(15,443)</u>
8140 Transfer of loans to Department of Education	<u>(191,910)</u>	<u>-</u>	<u>(191,910)</u>
Net Change in Fund Balances	(194,832)	(12,521)	(207,353)
Fund Balance - Beginning	<u>274,248</u>	<u>3,077,371</u>	<u>3,351,619</u>
Fund Balance - Ending	<u>\$ 79,416</u>	<u>\$ 3,064,850</u>	<u>\$ 3,144,266</u>

Watertown School District No. 14-4
Combining Statements of Net Position – Nonmajor Proprietary Funds
June 30, 2023

	Enterprise Funds							Totals
	Food Service Fund	Concessions Fund	Drivers Education Fund	Pre-School Services Fund	Bookstore Fund	LATC Food Service Fund	LATC Daycare Fund	
Assets								
Current assets								
101 Cash and cash equivalents	\$ 324,159	\$ 24,153	\$ 5,099	\$ 15,146	\$ 483,367	\$ 193,861	\$ 194,804	\$ 1,240,589
180 Investments	328,716	7,416	526	9,573	348,830	100,635	84,121	879,817
120 Accounts receivable	-	-	-	-	180,728	2,745	1,892	185,365
130 Due from other funds	1,750	-	-	-	143	24,771	-	26,664
140 Due from other governments	-	-	-	-	-	-	18,729	18,729
170 Inventory of supplies	10,027	6,377	-	-	-	1,811	-	18,215
171 Inventory of stores purchased for resale	5,987	-	-	-	617,346	7,111	-	630,444
172 Inventory of donated food	1,257	-	-	-	-	-	-	1,257
192 Prepaid expenses	-	-	-	-	37,023	-	-	37,023
Total current assets	<u>671,896</u>	<u>37,946</u>	<u>5,625</u>	<u>24,719</u>	<u>1,667,437</u>	<u>330,934</u>	<u>299,546</u>	<u>3,038,103</u>
Noncurrent assets								
196 Net pension asset	2,474	112	60	28	575	427	637	4,313
200 Capital assets								
204 Machinery and equipment - local funds	669,617	5,847	-	-	12,979	41,005	66,397	795,845
Less accumulated depreciation	<u>(387,088)</u>	<u>(4,190)</u>	<u>-</u>	<u>-</u>	<u>(12,979)</u>	<u>(19,775)</u>	<u>(6,696)</u>	<u>(430,728)</u>
Total noncurrent assets	<u>285,003</u>	<u>1,769</u>	<u>60</u>	<u>28</u>	<u>575</u>	<u>21,657</u>	<u>60,338</u>	<u>369,430</u>
Deferred outflows of resources								
252 Pension related deferred outflows	<u>244,957</u>	<u>11,135</u>	<u>5,970</u>	<u>2,738</u>	<u>56,932</u>	<u>42,293</u>	<u>63,099</u>	<u>427,124</u>
	<u>\$ 1,201,856</u>	<u>\$ 50,850</u>	<u>\$ 11,655</u>	<u>\$ 27,485</u>	<u>\$ 1,724,944</u>	<u>\$ 394,884</u>	<u>\$ 422,983</u>	<u>\$ 3,834,657</u>

Watertown School District No. 14-4
Combining Statements of Net Position – Nonmajor Proprietary Funds
June 30, 2023

	Enterprise Funds							Totals
	Food Service Fund	Concessions Fund	Drivers Education Fund	Pre-School Services Fund	Bookstore Fund	LATC Food Service Fund	LATC Daycare Fund	
Liabilities and Net Position								
Liabilities								
400 Current liabilities:								
402 Accounts payable	\$ 34,380	\$ -	\$ 1,602	\$ -	\$ 6,914	\$ 16,871	\$ 3,961	\$ 63,728
404 Contracts payable	5,093	-	-	1,225	-	3,029	11,238	20,585
410 Due to other funds	-	-	-	-	1,018	-	1,750	2,768
450 Payroll deductions and withholdings and employer matching payable	693	-	-	345	-	315	2,844	4,197
471 Deposits payable	84,604	-	-	-	-	-	-	84,604
475 Unearned revenue	54,891	-	-	-	274,158	-	-	329,049
Total current liabilities	179,661	-	1,602	1,570	282,090	20,215	19,793	504,931
Deferred inflows of resources								
554 Pension related deferred inflows	143,867	6,540	3,507	1,608	33,437	24,839	37,059	250,857
Net Position								
706 Net investment in capital assets	282,529	1,657	-	-	-	21,230	59,701	365,117
707.2 Restricted for pension benefits	103,564	4,707	2,523	1,158	24,070	17,881	26,677	180,580
708 Unrestricted net position	492,235	37,946	4,023	23,149	1,385,347	310,719	279,753	2,533,172
Total net position	878,328	44,310	6,546	24,307	1,409,417	349,830	366,131	3,078,869
	<u>\$ 1,201,856</u>	<u>\$ 50,850</u>	<u>\$ 11,655</u>	<u>\$ 27,485</u>	<u>\$ 1,724,944</u>	<u>\$ 394,884</u>	<u>\$ 422,983</u>	<u>\$ 3,834,657</u>

Watertown School District No. 14-4
Combining Statements of Revenues, Expenses, and Changes in Net Position – Nonmajor Proprietary Funds
Year Ended June 30, 2023

	Enterprise Funds							Totals
	Food Service Fund	Concessions Fund	Drivers Education Fund	Pre-School Services Fund	Bookstore Fund	LATC Food Service Fund	LATC Daycare Fund	
Operating Revenues								
Sales								
1340 Preschool tuition	\$ -	\$ -	\$ -	\$ 11,120	\$ -	\$ -	\$ -	\$ 11,120
1610 To pupils	619,270	-	44,036	-	-	684,164	-	1,347,470
1620 To adults	12,436	-	-	-	-	-	-	12,436
1630 Ala carte	23,593	-	-	-	-	-	-	23,593
1690 Other	16,737	157,074	-	-	-	-	-	173,811
1720 Bookstore sales	-	-	-	-	3,236,038	-	-	3,236,038
1980 Daycare charges for services	-	-	-	-	-	-	326,592	326,592
Total operating revenues	672,036	157,074	44,036	11,120	3,236,038	684,164	326,592	5,131,060
Operating Expenses								
100 Salaries	780,702	61,609	35,305	7,352	165,632	178,210	243,508	1,472,318
200 Employee benefits	181,241	6,381	4,350	1,936	45,025	39,128	58,173	336,234
300 Purchased services	55,934	224	-	-	136,601	16,448	18,353	227,560
400 Supplies	133,413	9,073	2,750	-	27,180	25,889	53,059	251,364
461 Cost of sales - purchased	892,254	80,671	-	-	2,895,735	362,066	13,950	4,244,676
462 Cost of sales - donated	98,229	-	-	-	-	-	-	98,229
600 Other	13,844	652	-	-	-	-	165	14,661
900 Depreciation	36,877	390	-	-	-	1,430	3,003	41,700
Total operating expenses	2,192,494	159,000	42,405	9,288	3,270,173	623,171	390,211	6,686,742
Operating Income (Loss)	(1,520,458)	(1,926)	1,631	1,832	(34,135)	60,993	(63,619)	(1,555,682)

Watertown School District No. 14-4

Combining Statements of Revenues, Expenses, and Changes in Net Position – Nonmajor Proprietary Funds

Year Ended June 30, 2023

	Enterprise Funds							
	Food Service Fund	Concessions Fund	Drivers Education Fund	Pre-School Services Fund	Bookstore Fund	LATC Food Service Fund	LATC Daycare Fund	Totals
Nonoperating Revenue								
Local sources:								
1500 Investment earnings	2,924	66	5	85	13,088	895	748	17,811
State sources:								
3810 Cash reimbursements	4,825	-	-	-	-	-	-	4,825
Federal sources:								
4150 Federal grants	-	-	-	-	-	-	55,918	55,918
4810 Cash reimbursements	992,562	-	-	-	-	-	31,157	1,023,719
4820 Donated food	98,229	-	-	-	-	-	-	98,229
Total nonoperating revenue	1,098,540	66	5	85	13,088	895	87,823	1,200,502
Change in Net Position	(421,918)	(1,860)	1,636	1,917	(21,047)	61,888	24,204	(355,180)
Net Position - Beginning	1,300,246	46,170	4,910	22,390	1,430,464	287,942	341,927	3,434,049
Net Position - Ending	\$ 878,328	\$ 44,310	\$ 6,546	\$ 24,307	\$ 1,409,417	\$ 349,830	\$ 366,131	\$ 3,078,869

Watertown School District No. 14-4
Combining Statements of Cash Flows – Nonmajor Proprietary Funds
Year Ended June 30, 2023

	Enterprise Funds							
	Food Service Fund	Concessions Fund	Drivers Education Fund	Pre-School Services Fund	Bookstore Fund	LATC Food Service Fund	LATC Daycare Fund	Totals
Cash Flows from (used for) Operating Activities								
Cash receipts from customers	\$ 710,432	\$ 157,074	\$ 44,036	\$ 11,120	\$ 3,025,894	\$ 681,419	\$ 328,187	\$ 4,958,162
Payments to employees	(981,327)	(68,962)	(39,046)	(9,365)	(209,472)	(216,124)	(308,567)	(1,832,863)
Payments to suppliers	(1,069,137)	(94,853)	(4,584)	-	(3,437,523)	(406,826)	(91,729)	(5,104,652)
Net Cash from (used for) Operating Activities	(1,340,032)	(6,741)	406	1,755	(621,101)	58,469	(72,109)	(1,979,353)
Cash Flows from Noncapital Financing Activities								
Operating grants	-	-	-	-	-	-	55,918	55,918
Operating subsidies	997,387	-	-	-	-	-	31,157	1,028,544
Net Cash from Noncapital Financing Activities	997,387	-	-	-	-	-	87,075	1,084,462
Cash Flows used for Capital and Related Financing Activities								
Purchase of capital assets	(125,828)	-	-	-	-	(13,163)	(53,364)	(192,355)
Net Cash used for Capital and Related Financing Activities	(125,828)	-	-	-	-	(13,163)	(53,364)	(192,355)
Cash Flows from Investing Activities								
Sale of investments	-	-	-	-	300,000	-	-	300,000
Net Cash from Investing Activities	-	-	-	-	300,000	-	-	300,000
Net Change in Cash and Cash Equivalents	(468,473)	(6,741)	406	1,755	(321,101)	45,306	(38,398)	(787,246)
Cash and Cash Equivalents, Beginning of Year	792,632	30,894	4,693	13,391	804,468	148,555	233,202	2,027,835
Cash and Cash Equivalents, End of Year	\$ 324,159	\$ 24,153	\$ 5,099	\$ 15,146	\$ 483,367	\$ 193,861	\$ 194,804	\$ 1,240,589

Watertown School District No. 14-4
Combining Statements of Cash Flows – Nonmajor Proprietary Funds
Year Ended June 30, 2023

	Enterprise Funds							
	Food Service Fund	Concessions Fund	Drivers Education Fund	Pre-School Services Fund	Bookstore Fund	LATC Food Service Fund	LATC Daycare Fund	Totals
Reconciliation of Operating Income (Loss) to Net Cash from (used for) Operating Activities								
Operating income (loss)	\$ (1,520,458)	\$ (1,926)	\$ 1,631	\$ 1,832	\$ (34,135)	\$ 60,993	\$ (63,619)	\$ (1,555,682)
Adjustments to reconcile operating income (loss) to net cash from (used for) operating activities:								
Depreciation expense	36,877	390	-	-	-	1,430	3,003	41,700
Value of donated commodities used	98,229	-	-	-	-	-	-	98,229
Change in assets and liabilities:								
Accounts receivable	-	-	-	-	(22,626)	(2,745)	1,595	(23,776)
Inventories	6,007	(4,233)	-	-	(165,492)	(1,094)	-	(164,812)
Due from other funds	1,119	-	-	-	10,997	(13,028)	-	(912)
Due from other governments	-	-	-	-	-	-	(6,594)	(6,594)
Prepaid expenses	-	-	-	-	104,695	-	-	104,695
Pension asset and deferred outflows	200,562	8,968	10,916	2,621	79,164	55,904	49,514	407,649
Accounts payable	19,182	-	(1,834)	-	(329,225)	11,699	1,511	(298,667)
Contracts payable	1,230	-	-	74	-	849	(921)	1,232
Payroll deductions and withholdings and employer matching payable	167	-	-	11	-	22	(215)	(15)
Due to other funds	-	-	-	-	1,018	-	(1,119)	(101)
Deposits payable	(15,987)	-	-	-	-	-	-	(15,987)
Unearned revenue	54,383	-	-	-	(187,518)	-	-	(133,135)
Pension liability and deferred inflows	(221,343)	(9,940)	(10,307)	(2,783)	(77,979)	(55,561)	(55,264)	(433,177)
Net Cash from (used for) Operating Activities	<u>\$ (1,340,032)</u>	<u>\$ (6,741)</u>	<u>\$ 406</u>	<u>\$ 1,755</u>	<u>\$ (621,101)</u>	<u>\$ 58,469</u>	<u>\$ (72,109)</u>	<u>\$ (1,979,353)</u>
Noncash Investing, Capital and Financing Activities								
Value of commodities received	\$ 98,229	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 98,229
Gain on investments not affecting operating income (loss)	2,924	66	5	85	13,088	895	748	17,811



**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***

To the School Board
Watertown School District No. 14-4
Watertown, 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 Watertown School District No. 14-4 (the School District), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Watertown School District No. 14-4's basic financial statements and have issued our report thereon dated February 26, 2024. In our report we expressed a disclaimer of opinion on the discretely presented component unit as the financial statements of the Lake Area Technical College Foundation have not been audited and we were not engaged to audit the Lake Area Technical College Foundation. In our report we also expressed a qualified opinion on the aggregate remaining fund information and the governmental activities which include the Arrow Education Foundation as the financial statements of the Arrow Education Foundation have not been audited and we were not engaged to audit the Arrow Education Foundation.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Watertown School District No. 14-4's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 have not been identified. We identified certain aggregated deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001, that we consider to be a material weakness.

Report on Compliance and Other Matters

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

School District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the School District's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The School District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Aberdeen, South Dakota
February 26, 2024



**Independent Auditor's Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance Required by the Uniform Guidance**

The Board of Directors
Watertown School District No. 14-4
Watertown, South Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Watertown School District No. 14-4's (the School District) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2023. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the School District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the School District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the School District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the School District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the School District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the School District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
February 26, 2024

Watertown School District No. 14-4

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/ Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Agriculture			
Pass-Through the SD Department of Education:			
Child Nutrition Cluster:			
Non-Cash Assistance (Commodities):			
National School Lunch Program	10.555	*	\$ 98,229
Cash Assistance:			
School Breakfast Program	10.553	*	138,141
National School Lunch Program	10.555	*	854,421
Cash Assistance Total:			<u>992,562</u>
Total for Child Nutrition Cluster		*	<u>1,090,791</u>
Child and Adult Care Food Program	10.558	*	<u>31,157</u>
Total U.S. Department of Agriculture			<u>1,121,948</u>
U.S. Department of Education			
Direct Federal Funding:			
Student Financial Aid - Cluster			
Federal Pell Grant Program	84.063	N/A	2,882,004
Federal Workstudy Program	84.033	N/A	69,523
FSEOG Program	84.007	N/A	65,000
Perkins Loan Program (Note D)	84.038	N/A	339,521
Direct Loan Program	84.268	N/A	<u>6,572,359</u>
Total Student Financial Aid Cluster			<u>9,928,407</u>
Education Stabilization Fund			
Direct Award			
COVID-19 - Higher Education Emergency Relief Fund			
Student Portion	84.425E	N/A	40,420
Passed through the SD Department of Education:			
COVID-19 Elementary and Secondary Emergency			
Relief Fund	84.425D	*	278,084
COVID-19 - American Rescue Plan - Elementary and			
Secondary Emergency Relief Fund	84.425U	*	967,496
COVID-19 - American Rescue Plan – Elementary and			
Secondary School Emergency Relief – Homeless			
Children and Youth	84.425W	*	<u>52,019</u>
Total Education Stabilization Fund			<u>1,338,019</u>

Watertown School District No. 14-4

Schedule of Expenditures of Federal Awards

June 30, 2023

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal Financial Assistance Listing</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Pass-Through the SD Department of Education:			
Title I Grants to Local Educational Agencies	84.010	*	761,258
Migrant Education	84.011	*	5,000
Career and Technical Education - Basic Grants to States	84.048	*	535,441
Improving Teacher Quality State Grants	84.367	*	226,156
Title IV - A	84.424	*	78,743
Title III - Immigrant	84.365A	*	15,812
Special Education Cluster:			
Special Education - Grants to States	84.027	*	1,112,437
Special Education - Preschool Grants	84.173	*	18,123
Total for Special Education Cluster			1,130,560
Total U.S. Department of Education			14,019,396
U.S. Department of Commerce			
Manufacturing Extension Partnership	11.611	*	236,071
Total U.S. Department of Commerce			236,071
U.S. Department of Health and Human Services			
Child Care and Development Block Grant	93.575	*	55,918
Total U.S. Department of Health and Human Services			55,918
Total Federal Financial Assistance			\$ 15,433,333

* Pass-through identifying numbers were not provided.

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Watertown School District No. 14-4 (the School District) under programs of the federal government for the year ended June 30, 2023. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position or fund balance, or cash flows of the School District.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

The School District has not elected to use the 10% *de minimus* cost rate.

Note 4 - Food Donation

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2023, the School District had food commodities totaling \$1,257 in inventory.

Note 5 - Federal Student Loan Programs

The federal student loan programs listed subsequently are administered directly by Lake Area Technical College and balances and transactions relating to these programs are included in the School District's basic financial statements. No new loans were made during the year. The balance of loans outstanding at June 30, 2023, for the Perkins Loan Program (CFDA # 84.038) was \$304,093.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	
Discretely Presented Component Unit	Disclaimer
Aggregate Remaining Fund Information	Qualified
Governmental Activities	Qualified
All Other Opinion Units	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516	No

Identification of major programs:

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing</u>
Student Financial Aid Cluster	
Federal Pell Grant Program	84.063
Federal Workstudy Program	84.033
FSEOG Program	84.007
Direct Loan Program	84.268
Perkins Loan Program	84.038
Education Stabilization Fund	
COVID-19 - Elementary and Secondary Emergency Relief Fund (ESSER)	84.425D
COVID-19 - American Rescue Plan - Elementary and Secondary Emergency Relief Fund (ARP ESSER)	84.425U
COVID-19 - American Rescue Plan – Elementary and Secondary School Emergency Relief – Homeless Children and Youth	84.425W
COVID-19 - Higher Education Emergency Relief Fund (HEERF) - Student	84.425E
Title I Grants to Local Educational Agencies	84.010
Special Education Cluster:	
Special Education - Grants to States	84.027
Special Education - Preschool Grants	84.173
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Finding 2023-001 Auditor Preparation of Financial Statements, Audit Adjustments and Passed Audit Adjustments, and Adjustments to the Schedule of Expenditures of Federal Awards

Material Weakness

Criteria: The School District's internal control structure should be designed to provide for the preparation of the financial statements, including required footnote disclosures and schedule of expenditures of federal awards (SEFA), which includes having an adequate internal control system for recording and processing entries material to the financial statements being audited in accordance with generally accepted accounting principles.

Condition: As the auditor, we prepared the financial statements and required footnote disclosures for the year ended June 30, 2023. As part of audit procedures and preparation of the financial statements, we identified and proposed various audit adjustments and adjustments to the SEFA, some of which were material, that were not identified by the School District's current internal controls. We also identified certain misstatements, deemed to be immaterial individually and in the aggregate to the financial statements as a whole, that were passed on for adjustment by management.

Cause: The School District's internal controls did not identify and detect the misstatements noted during our audit, resulting in proposed audit adjustments and identified passed audit adjustments, as well as corrections to the SEFA. Additionally, the auditor was requested to prepare the complete financial statements and related required footnotes.

Effect: The presence of identified audit adjustments and passed audit adjustments may affect the condition of financial information throughout the year being used by management in analysis and decision making and increase the risk that potential misstatements remain present in the financial statements. The auditor's preparation of the financial statements and footnotes may also affect the School District's ability to summarize and report financial data consistent with the assertions of management. The effect of adjustments being made by the auditor to the SEFA increases the risk of potentially inaccurate major program determination and incorrect reporting to the federal government.

Recommendation: We recommend management perform a thorough review of the auditor-prepared financial statements, audit adjustments and adjustments made to the SEFA, as well as account balances in each fund to ensure all necessary adjustments are reflected in the financial statements in accordance with generally accepted accounting principles. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the auditor's role in preparation of the financial statements and footnotes.

Views of Responsible Officials: Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

None reported.



WATERTOWN SCHOOL DISTRICT No. 14-4

Business Office

P.O. Box 730 Watertown, SD 57201-0730

Ph. (605) 882-6314 Fax (605) 882-6327

HEIDI CLAUSEN
Business Manager
Heidi.Clausen@k12.sd.us

MICHELE KRUSE
Executive Assistant
Michele.Kruse@k12.sd.us

Management's Response to Auditor's Findings:
Summary Schedule of Prior Audit Findings and
Corrective Action Plan
June 30, 2023

Prepared by Management of
Watertown School District #14-4

Summary Schedule of Prior Audit Findings

Finding 2022-001

Initial Fiscal Year Finding Occurred: 2021

Finding Summary: Eide Bailly LLP prepared the financial statements and required footnote disclosures for the year ended June 30, 2022. As part of audit procedures and preparation of the financial statements, they identified and proposed various audit adjustments and adjustments to the SEFA, some of which were material, that were not identified by current internal controls. They also identified certain misstatements, deemed to be immaterial individually and in the aggregate to the financial statements as a whole, that were passed on for adjustment by management.

Status: Ongoing.

Finding 2022-002

Federal Agency Name: Department of Education

Program Name: Student Financial Aid Cluster

CFDA # 84.268 - Federal Direct Student Loans

Special Tests and Provisions – Return of Title IV Funds

Initial Fiscal Year Finding Occurred: 2022

Finding Summary: 1 of 30 students tested for return of Title IV had a withdrawal determination date outside of the 30-day requirement. For a student who withdraws without providing notification from a school that is not required to take attendance, the school must determine the withdrawal date no later than 30 days after the end of the earlier of 1) the payment period or the period of enrollment, 2) the academic year, or 3) the student's educational program.

Status: Corrective action was taken.

Corrective Action Plan

Finding 2023-001

Finding Summary:

Eide Bailly LLP prepared the financial statements and required footnote disclosures for the year ended June 30, 2023. As part of audit procedures and preparation of the financial statements, they identified and proposed various audit adjustments and adjustments to the SEFA, some of which were material, that were not identified by current internal controls. They also identified certain misstatements, deemed to be immaterial individually and in the aggregate to the financial statements as a whole, that were passed on for adjustment by management.

Responsible Individuals:

Heidi Clausen, Business Manager

Corrective Action Plan:

It is not cost effective to have an internal control system designed to provide for the preparation of the financial statements and accompanying notes. We request that our auditors, Eide Bailly LLP, prepare the financial statements and the accompanying notes to the financial statements as a part of their annual audit. We have designated a member of management to review the drafted financial statements and accompanying notes, and we have reviewed with and agree with the material adjustments proposed during the audit.

Anticipated Completion Date: Ongoing