

HERREID SCHOOL DISTRICT NO. 10-1
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

HERREID SCHOOL DISTRICT NO. 10-1
SCHOOL DISTRICT OFFICIALS

JUNE 30, 2021

Board Members:

Brandon Ritter - Vice Chairman
Holly Randall
Dena Hanson
Colleen Rueb
Josh Sayler - Chairman

Superintendent:

Lance Vander Vorst

Business Manager:

Wayne Hanson

HERREID SCHOOL DISTRICT NO. 10-1

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CERTIFIED PUBLIC ACCOUNTANTS

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WITH OFFICES IN
MILLER, SOUTH DAKOTA

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

School Board
Herreid School District No. 10-1
Herreid, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Herreid School District No. 10-1, South Dakota (School District), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated June 10, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings, that we consider to be material weaknesses as items 2021-001 through 2021-004.

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 an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards, and which is described in the accompanying Schedule of Current Audit Findings as item 2021-004.

School District's Response to Findings

The School District's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings. The School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Kohlman Beischbach & Andersen LLP

June 10, 2022

HERREID SCHOOL DISTRICT NO. 10-1
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2021

PRIOR AUDIT FINDINGS:

2020-001

A material weakness was reported for lack of segregation of duties for cash, investments, revenues, receivables, grants, inventories, payables, expenditures, payroll, capital assets and equity, which could result in errors not being found in a timely manner.

Status:

This finding has not been corrected and is restated as current audit finding 2021-001.

2020-002

The School District does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with generally accepted accounting principles (GAAP). As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Status:

This finding has not been corrected and is restated as current audit finding 2021-002.

2020-003

The School District does not have an internal control structure to provide for the recording of all necessary material adjustments.

Status:

This finding has not been corrected and is restated as current audit finding 2021-003.

2020-004

The School District does not accurately prepare the monthly bank reconciliations resulting in material misstatement of cash balances.

Status:

This finding is not restated.

2020-005

The School District has a food service inventory listing that does not contain any values; therefore, the School District is not in compliance with SDCL 5-24-2.

Status:

This finding is not restated.

HERREID SCHOOL DISTRICT NO. 10-1
SCHEDULE OF CURRENT AUDIT FINDINGS
JUNE 30, 2021

CURRENT AUDIT FINDINGS:

Internal Control-Related Findings - Material Weaknesses:

2021-001

Criteria

Internal control can help the School District achieve its performance targets and prevent loss of resources. It can help ensure reliable financial reporting and it can help ensure that the School District complies with laws and regulations.

Condition Found

A material weakness was reported for lack of segregation of duties for cash and investments, revenues, receivables and grants, inventories, expenditures, payables and payroll, capital assets, debt, and equity, which could result in errors not being found in a timely manner.

Cause

Internal controls are not adequately designed to prevent or detect material misstatements due to either fraud or error.

Effect

The School District has a limited number of employees who prepare all records for cash and investments, revenues, receivables and grants, inventories, expenditures, payables and payroll, capital assets, debt, and equity.

Recommendation

The School District is aware of this problem and will attempt to provide compensating controls wherever and whenever possible and practical.

Views of Responsible Officials

The School District has determined that it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for cash and investments, revenues, receivables and grants, inventories, expenditures, payables and payroll, capital assets, debt, and equity, and accepts the risks involved. The School Board is aware of the problem and will attempt to provide compensating controls wherever and whenever possible and practical. Some of the compensating controls that have been implemented include dual signatures on checks and board members reviewing vouchers. The Superintendent, Lance Vander Vorst, is responsible for this finding.

2021-002

Criteria

An organization's internal control structure should provide for the preparation of financial statements in accordance with generally accepted accounting principles (GAAP).

Condition Found

The School District does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with generally accepted accounting principles (GAAP). As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

HERREID SCHOOL DISTRICT NO. 10-1
SCHEDULE OF CURRENT AUDIT FINDINGS
JUNE 30, 2021
(Continued)

Cause

Internal controls are not adequately designed to prepare the financial statements.

Effect

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

Recommendation

This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials

Both management and the School Board have been informed of this condition and are confident that the information is accurate and are willing to accept this risk. The Board Chairman, Josh Sayler, is responsible for this finding.

2021-003

Criteria

An organization's internal control structure should provide for the recording of all necessary material adjustments in order to ensure that accounting records are in accordance with generally accepted accounting principles.

Condition Found

During our engagement, we proposed material audit adjustments that would not have been identified as a result of the School District's existing internal controls and, therefore, could have resulted in a material misstatement of the School District's financial statements.

Cause

Internal controls are not adequately designed to record all material adjustments.

Effect

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

Recommendation

This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

HERREID SCHOOL DISTRICT NO. 10-1
SCHEDULE OF CURRENT AUDIT FINDINGS
JUNE 30, 2021
(Continued)

Views of Responsible Officials

The School District accepts the risks associated with this deficiency. The School Board is aware of the problem and will attempt to provide compensating controls wherever and whenever possible and practical. The Board Chairman, Josh Sayler, is responsible for this finding.

2021-004

Criteria

South Dakota Codified Law (SDCL) 5-18A-14 states that if purchasing agency intends to enter into a contract for any public improvement that involves the expenditure of one hundred thousand dollars or more, or a contract for the purchase of supplies or services, other than professional services, that involves the expenditure of twenty-five thousand dollars or more, the purchasing agency shall advertise for bids or proposals.

If the total amount purchased during a year (generally a fiscal year) will exceed the bid limit, then advertising for competitive bids is required. The purchase of items that represent a homogenous group means that items are “similar” or “of the same.” For example, when the annual purchase of assorted tires can be estimated to exceed the bid limit, then competitive bidding is required.

Condition Found

The School District purchased new gym bleachers, totaling \$51,469 and did not open bids for this purchase. The purchase of these items represents a homogeneous group; therefore, competitive bidding is required.

Cause

The School District did not bid the purchase of new gym bleachers totaling \$51,469 as required by SDCL 5-18A-14.

Effect

The School District is not in compliance with SDCL 5-18A-14.

Recommendation

We recommend the School and the Business Manager monitor compliance more closely and bid out contracts in accordance with SDCL 5-18A-14.

Views of Responsible Officials

The School District agrees with the finding. The School Board has directed Administration to immediately implement procedures to evaluate contracts and large purchases going forward. The Superintendent, Lance Vander Vorst, is responsible for this finding.

COMPLIANCE AND OTHER MATTERS

2021-004

This finding has already been stated under the section entitled “Internal Control-Related Findings - Material Weaknesses.” See that section for more details on this finding.

HERREID SCHOOL DISTRICT NO. 10-1
SCHEDULE OF CURRENT AUDIT FINDINGS
JUNE 30, 2021
(Continued)

Closing Conference

The contents of this report were discussed by Christine Olsen via zoom with Wayne Hanson (Business Manager) on May 24, 2022.

KOHLMAN, BIRSCHBACH & ANDERSON, LLP
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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WITH OFFICES IN
MILLER, SOUTH DAKOTA

INDEPENDENT AUDITORS' REPORT

School Board
Herreid School District No. 10-1
Herreid, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Herreid School District No. 10-1, South Dakota (School District), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Herreid School District No. 10-1, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2021, the School District adopted Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities, which has resulted in a restatement of the net position as of July 1, 2020. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules and Pension Schedules on pages 39 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The School District has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 10, 2022, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is 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.

*Kohlman Bierschbach
& Andersen LLP*

June 10, 2022

HERREID SCHOOL DISTRICT NO. 10-1**STATEMENT OF NET POSITION****JUNE 30, 2021**

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 2,246,788	\$ -	\$ 2,246,788
Investments	60,000	-	60,000
Taxes receivable	668,936	-	668,936
Internal balances	62,676	(62,676)	-
Inventories	8,965	2,645	11,610
Other assets	109,322	1,103	110,425
Restricted Assets:			
Cash and cash equivalents	15,183	-	15,183
Net pension asset	1,692	68	1,760
Capital Assets:			
Land, improvements and construction in progress	5,464	-	5,464
Other capital assets, net of depreciation	1,259,495	28,658	1,288,153
TOTAL ASSETS	4,438,521	(30,202)	4,408,319
DEFERRED OUTFLOWS OF RESOURCES:			
Pension related deferred outflows	272,724	12,858	285,582
TOTAL DEFERRED OUTFLOWS OF RESOURCES	272,724	12,858	285,582
LIABILITIES:			
Other current liabilities	135,659	3,663	139,322
Unearned revenue	-	3,603	3,603
Noncurrent Liabilities:			
Due within one year	55,618	-	55,618
Due in more than one year	162,266	-	162,266
TOTAL LIABILITIES	353,543	7,266	360,809
DEFERRED INFLOWS OF RESOURCES:			
Taxes levied for future period	914,299	-	914,299
Pension related deferred inflows	235,342	6,171	241,513
TOTAL DEFERRED INFLOWS OF RESOURCES	1,149,641	6,171	1,155,812
NET POSITION:			
Net investment in capital assets	1,051,735	28,658	1,080,393
Restricted for:			
Capital outlay purposes	979,220	-	979,220
Special education purposes	180,962	-	180,962
SDRS pension purposes	39,074	6,755	45,829
Other purposes	15,183	-	15,183
Unrestricted (Deficit)	941,887	(66,194)	875,693
TOTAL NET POSITION	\$ 3,208,061	\$ (30,781)	\$ 3,177,280

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

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental Activities:							
Instruction	\$ 1,165,641	\$ -	\$ 87,023	\$ -	\$ (1,078,618)		\$(1,078,618)
Support services	723,940	1,125	-	-	(722,815)		(722,815)
*Interest on long-term debt	6,626	-	-	-	(6,626)		(6,626)
Cocurricular activities	152,257	17,915	-	28,003	(106,339)		(106,339)
Total Governmental Activities	2,048,464	19,040	87,023	28,003	(1,914,398)		(1,914,398)
Business-Type Activities:							
Food service	84,631	21,163	41,238	-		\$ (22,230)	(22,230)
Preschool	22,838	3,200	-	-		(19,638)	(19,638)
Total Business-Type Activities	107,469	24,363	41,238	-		(41,868)	(41,868)
Total Primary Government	\$ 2,155,933	\$ 43,403	\$ 128,261	\$ 28,003	(1,914,398)	(41,868)	(1,956,266)
* The District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.		General Revenues:					
		Taxes:					
		Property taxes					
		1,856,563					
		Utility taxes					
		34,714					
		Revenue from State Sources:					
		State aid					
		180,377					
		Other					
		26,353					
		Revenue from Federal Sources					
		59,500					
		Unrestricted Investment Earnings					
		3,642					
		Other General Revenues					
		40,678					
		Transfer					
		(15,000)					
		Total General Revenues and Transfer					
		2,186,827					
		Change in Net Position					
		272,429					
		(26,868)					
		245,561					
		Net Position - Beginning					
		2,935,632					
		(3,913)					
		2,931,719					
		Net Position - Ending					
		\$ 3,208,061					
		3,177,280					

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

HERREID SCHOOL DISTRICT NO. 10-1**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2021**

	General Fund	Capital Outlay Fund	Special Education Fund	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ 1,048,474	\$ 1,005,649	\$ 192,665	\$ 2,246,788
Investments	10,000	50,000	-	60,000
Taxes receivable - current	381,776	185,294	89,673	656,743
Taxes receivable - delinquent	6,402	4,246	1,545	12,193
Due from Food Service Fund	10,671	-	-	10,671
Due from Preschool Fund	52,005	-	-	52,005
Due from federal government	50,715	-	14,972	65,687
Due from state government	34,714	-	7	34,721
Inventory of supplies	8,965	-	-	8,965
Deposits	8,914	-	-	8,914
Restricted cash and cash equivalents	15,183	-	-	15,183
TOTAL ASSETS	\$ 1,627,819	\$ 1,245,189	\$ 298,862	\$ 3,171,870
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:				
LIABILITIES:				
Contracts payable	\$ 94,827	\$ -	\$ 1,752	\$ 96,579
Short-term capital lease	-	26,469	-	26,469
Payroll deductions and withholdings and employer matching payable	12,371	-	240	12,611
TOTAL LIABILITIES	107,198	26,469	1,992	135,659
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue - property taxes	6,402	4,246	1,545	12,193
Taxes levied for future period	558,891	239,500	115,908	914,299
TOTAL DEFERRED INFLOWS OF RESOURCES	565,293	243,746	117,453	926,492
FUND BALANCES:				
Nonspendable:				
Inventory of supplies	8,965	-	-	8,965
Deposits	8,914	-	-	8,914
Restricted for:				
Capital outlay purposes	-	974,974	-	974,974
Special education purposes	-	-	179,417	179,417
Athletic purposes	8,518	-	-	8,518
Music education purposes	5,525	-	-	5,525
Veterans' memorial	1,140	-	-	1,140
Assigned:				
Teachers' supplies	4,087	-	-	4,087
Unassigned	918,179	-	-	918,179
TOTAL FUND BALANCES	955,328	974,974	179,417	2,109,719
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,627,819	\$ 1,245,189	\$ 298,862	\$ 3,171,870

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

HERREID SCHOOL DISTRICT NO. 10-1
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2021

Total Fund Balances - Governmental Funds		\$ 2,109,719
Amounts reported for governmental activities in the statement of net position are different because:		
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.		1,692
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		1,264,959
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.		272,724
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
CO certificates	\$ 213,223	
Accrued leave	<u>4,660</u>	(217,884)
Assets, such as taxes receivable that are not available to pay for current period expenditures, are deferred in the funds.		
Taxes receivable	<u>\$ 12,193</u>	12,193
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.		<u>(235,342)</u>
Net Position - Governmental Activities		<u><u>\$ 3,208,061</u></u>

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

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2021

	General Fund	Capital Outlay Fund	Special Education Fund	Total Governmental Funds
REVENUES:				
Revenue from Local Sources:				
Taxes:				
Ad valorem taxes	\$ 1,078,668	\$ 538,383	\$ 227,602	\$ 1,844,653
Prior years' ad valorem taxes	13,424	7,806	4,468	25,698
Utility taxes	34,714	-	-	34,714
Penalties and interest on taxes	3,384	1,889	1,122	6,395
Earnings on investments and deposits	2,984	658	-	3,642
Cocurricular activities:				
Admissions	12,933	-	-	12,933
Other student activity income	4,982	-	-	4,982
Other revenue from local sources:				
Contributions and donations	1,776	26,227	-	28,003
Refund of prior years' expenditures	20,826	-	-	20,826
Judgments	2,000	-	-	2,000
Charges for services	1,125	-	-	1,125
Other	740	-	-	740
Revenue from Intermediate Sources:				
County sources:				
County apportionment	18,959	-	-	18,959
Revenue in lieu of taxes	153	-	-	153
Revenue from State Sources:				
Grants-in-aid:				
Unrestricted grants-in-aid	206,730	-	-	206,730
Revenue from Federal Sources:				
Grants-in-aid:				
Unrestricted grants-in-aid received from federal government through the state	59,500	-	-	59,500
Restricted grants-in-aid received from federal government through the state	70,051	-	14,972	85,023
TOTAL REVENUES	<u>1,532,949</u>	<u>574,963</u>	<u>248,164</u>	<u>2,356,076</u>
EXPENDITURES:				
Instruction:				
Regular programs:				
Elementary	393,491	17,782	-	411,273
Middle/Junior high	162,958	4,556	-	167,514
High school	322,959	7,919	-	330,878
Special programs:				
Programs for special education	-	-	130,545	130,545
Educationally deprived	31,471	-	-	31,471
Support Services:				
Students:				
Guidance	4,664	-	-	4,664
Psychological	-	-	15,145	15,145
Speech pathology	-	-	44,024	44,024
Student therapy services	-	-	30,670	30,670
Instructional staff:				
Educational media	10,708	-	-	10,708

	General Fund	Capital Outlay Fund	Special Education Fund	Total Governmental Funds
General administration:				
Board of education	30,160	-	-	30,160
Executive administration	84,922	-	-	84,922
School administration:				
Office of the principal	3,878	-	-	3,878
Other	26,478	-	-	26,478
Business:				
Fiscal services	66,294	719	-	67,013
Facilities acquisition and construction	-	27,886	-	27,886
Operation and maintenance of plant	167,847	16,990	-	184,837
Student transportation	88,218	518	-	88,736
Food services	-	2,838	-	2,838
Special education:				
Administrative costs	-	-	37,535	37,535
Debt Services	-	56,093	-	56,093
Cocurricular Activities:				
Male activities	37,551	-	-	37,551
Female activities	17,657	-	-	17,657
Combined activities	49,690	21,276	-	70,966
Capital Outlay	1,036	217,558	-	218,594
TOTAL EXPENDITURES	1,499,982	374,135	257,919	2,132,036
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	32,967	200,828	(9,755)	224,040
OTHER FINANCING SOURCES (USES):				
Transfers in	240,900	-	-	240,900
Transfers out	(15,000)	(240,900)	-	(255,900)
Sale of surplus property	43	-	-	43
TOTAL OTHER FINANCING SOURCES (USES)	225,943	(240,900)	-	(14,957)
NET CHANGE IN FUND BALANCES	258,910	(40,072)	(9,755)	209,083
FUND BALANCE - BEGINNING	696,418	1,015,046	189,172	1,900,636
FUND BALANCE - ENDING	\$ 955,328	\$ 974,974	\$ 179,417	\$ 2,109,719

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

HERREID SCHOOL DISTRICT NO. 10-1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

Net Change in Fund Balances - Total Governmental Funds \$ 209,083

Amounts reported for governmental activities in the statement of activities are different because:

This amount represents capital asset purchases which are reported as expenditures on the fund financial statements but increase assets on the government-wide statements. 218,594

This amount represents the current year depreciation expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources. (93,952)

In the statement activities, losses \$15,910 on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds \$0 from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized. (15,910)

Payment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net position.

CO certificates \$ 49,467 49,467

In both the government-wide and fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the funds' statements differs from the accounting in the government-wide statements in that the fund financial statements require the amounts to be "available". This amount reflects the application of both the application period and "availability criteria". (20,183)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (e.g., accrued interest expense, pension expense) (75,533)

Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds. 863

Change in Net Position of Governmental Activities \$ 272,429

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2021

	Enterprise Funds		
	Major	Nonmajor	
	Food Service	Preschool	
	Fund	Fund	Totals
ASSETS:			
Current Assets:			
Accounts receivable, net	\$ 1,103	\$ -	\$ 1,103
Inventory of supplies	179	-	179
Inventory of stores purchased for resale	1,204	-	1,204
Inventory of donated food	1,262	-	1,262
Total Current Assets	3,748	-	3,748
Noncurrent Assets:			
Net pension asset	68	-	68
Capital Assets:			
Machinery and equipment	54,899	-	54,899
Less: accumulated depreciation	(26,241)	-	(26,241)
Total Noncurrent Assets	28,726	-	28,726
TOTAL ASSETS	32,474	-	32,474
DEFERRED OUTFLOWS OF RESOURCES:			
Pension related deferred outflows	12,858	-	12,858
TOTAL DEFERRED OUTFLOWS OF RESOURCES	12,858	-	12,858
LIABILITIES:			
Current Liabilities:			
Contracts payable	-	3,404	3,404
Due to General Fund	10,671	52,005	62,676
Payroll deductions and withholdings and employer matching payable	-	259	259
Unearned revenue	3,603	-	3,603
TOTAL LIABILITIES	14,274	55,668	69,942
DEFERRED INFLOWS OF RESOURCES:			
Pension related deferred inflows	6,171	-	6,171
TOTAL DEFERRED INFLOWS OF RESOURCES	6,171	-	6,171
NET POSITION:			
Net investment in capital assets	28,658	-	28,658
SDRS pension purposes	6,755	-	6,755
Unrestricted (Deficit)	(10,526)	(55,668)	(66,194)
TOTAL NET POSITION	\$ 24,887	\$ (55,668)	\$ (30,781)

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

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2021

	Enterprise Funds		
	Major	Nonmajor	
	Food Service	Preschool	
	Fund	Fund	Totals
OPERATING REVENUE:			
Food sales:			
Student	\$ 12,725	\$ -	\$ 12,725
Adult	4,994	-	4,994
Ala carte	3,422	-	3,422
Other charges for goods and services	22	3,200	3,222
TOTAL OPERATING REVENUE	21,163	3,200	24,363
OPERATING EXPENSES:			
Salaries	29,937	20,800	50,737
Employee benefits	5,997	2,038	8,035
Purchased services	1,088	-	1,088
Supplies	556	-	556
Cost of sales - purchased	38,986	-	38,986
Cost of sales - donated	4,273	-	4,273
Depreciation	3,794	-	3,794
TOTAL OPERATING EXPENSES	84,631	22,838	107,469
OPERATING LOSS	(63,468)	(19,638)	(83,106)
NONOPERATING REVENUE:			
State grants	216	-	216
Federal grants	37,118	-	37,118
Donated food	3,904	-	3,904
TOTAL NONOPERATING REVENUE	41,238	-	41,238
LOSS BEFORE TRANSFERS	(22,230)	(19,638)	(41,868)
TRANSFERS IN	15,000	-	15,000
CHANGE IN NET POSITION	(7,230)	(19,638)	(26,868)
NET POSITION - BEGINNING	32,117	(36,030)	(3,913)
NET POSITION - ENDING	\$ 24,887	\$ (55,668)	\$ (30,781)

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

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2021

	Enterprise Funds		
	Major	Nonmajor	
	Food Service	Preschool	
	Fund	Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash receipts from customers	\$ 20,188	\$ 3,200	\$ 23,388
Cash payments to employees for services	(33,976)	(22,762)	(56,738)
Cash payments to suppliers of goods or services	(40,695)	-	(40,695)
Net cash used by operating activities	(54,483)	(19,562)	(74,045)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	15,000	-	15,000
Change in due to other funds	2,149	19,562	21,711
Operating grants received	37,334	-	37,334
Net cash provided by noncapital financing activities	54,483	19,562	74,045
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES	-	-	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	-	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	-	-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</u>			
OPERATING LOSS	\$ (63,468)	\$ (19,638)	\$ (83,106)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO			
NET CASH USED BY OPERATING ACTIVITIES:			
Depreciation expense	3,794	-	3,794
Value of donated commodities used	4,273	-	4,273
Change in assets and liabilities:			
Accounts receivable	(544)	-	(544)
Inventories	(65)	-	(65)
Net pension asset	72	-	72
Pension related deferred outflows	(1,468)	-	(1,468)
Contracts payable	-	71	71
Payroll deductions and withholdings and employer matching payable	-	5	5
Unearned revenue	(431)	-	(431)
Pension related deferred inflows	3,354	-	3,354
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (54,483)</u>	<u>\$ (19,562)</u>	<u>\$ (74,045)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Value of commodities received	\$ 3,904	\$ -	\$ 3,904

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

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2021

	Private-Purpose Trust Funds	Custodial Funds
ASSETS:		
Cash and cash equivalents	\$ -	\$ 42,543
Investments	34,016	-
	<hr/>	<hr/>
TOTAL ASSETS	34,016	42,543
	<hr/>	<hr/>
NET POSITION:		
Restricted for:		
Individuals, organizations and other governments	-	42,543
Scholarship	34,016	-
	<hr/>	<hr/>
TOTAL NET POSITION	\$ 34,016	\$ 42,543
	<hr/> <hr/>	<hr/> <hr/>

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

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2021

	Private-Purpose Trust Funds	Custodial Funds
ADDITIONS:		
Collections for student activities	\$ -	\$ 56,763
TOTAL ADDITIONS	<u>-</u>	<u>56,763</u>
DEDUCTIONS:		
Payments for student activities	<u>-</u>	<u>61,053</u>
TOTAL DEDUCTIONS	<u>-</u>	<u>61,053</u>
CHANGE IN NET POSITION	<u>-</u>	<u>(4,290)</u>
NET POSITION - BEGINNING	34,016	-
RESTATEMENT - IMPLEMENTATION OF GASB 84 (SEE NOTE 2)	<u>-</u>	<u>46,833</u>
NET POSITION - BEGINNING, AS RESTATED	<u>34,016</u>	<u>46,833</u>
NET POSITION - ENDING	<u><u>\$ 34,016</u></u>	<u><u>\$ 42,543</u></u>

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

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. **Financial Reporting Entity:**

The reporting entity of the Herreid School District No. 10-1 (School District), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

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

b. **Basis of Presentation:**

Government-Wide Financial Statements:

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

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

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

Fund Financial Statements:

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

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

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 - (Continued)

The funds of the School District financial reporting entity are described below within their respective fund types:

Governmental Funds:

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

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

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

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

Proprietary Funds:

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

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

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

Preschool Fund - A fund used to record financial transactions related to preschool operations. This fund is financed by user charges. This is not a major fund.

Fiduciary Funds:

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

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

The Adney Scholarship Trust Fund is the only private-purpose trust fund.

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 - (Continued)

Custodial Funds - Custodial funds are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. The School District maintains custodial funds to hold assets as an agent in a trustee capacity for various classes, clubs, and so on.

c. Measurement Focus and Basis of Accounting:

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

Measurement Focus:

Government-Wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

Government-Wide Financial Statements:

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

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the School District is 60 days. The revenues which are accrued at June 30, 2021, are reimbursements for federal program expenditures and gross receipts.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. 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 fund and fiduciary fund types are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 - (Continued)

d. 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.

e. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

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

f. Capital Assets:

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

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

Government-Wide Financial Statements:

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

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

The total June 30, 2021 balance of capital assets for governmental activities are all valued at original costs. The total June 30, 2021 balance of capital assets for business-type activities are all valued at original costs.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$ -	N/A	N/A
Improvements	\$ 2,500	Straight-line	10-20 years
Buildings	\$ 2,500	Straight-line	50 years
Machinery and Equipment	\$ 2,500	Straight-line	4-20 years

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 - (Continued)

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the 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.

g. Long-Term Liabilities:

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

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

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

h. 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.

i. Proprietary Funds Revenue and Expense Classifications:

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

j. Cash and Cash Equivalents:

For the purpose of preparing the Statement of Cash Flows, the School District considers all highly liquid investments and deposits with a term to maturity of three months or less when purchased to be cash equivalents.

k. Equity Classifications:

Government-Wide Financial Statements:

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

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 - (Continued)

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and is distinguished between Nonspendable, Restricted, Committed, Assigned or Unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity is reported as restricted net position.

l. Application of Net Position:

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

m. Fund Balance Classification Policies and Procedures:

In accordance with Governmental Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the School District classifies governmental fund balances as follows:

Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the School Board, Superintendent, 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 is comprised of the following:

Amount reported in nonspendable form such as inventory and deposits.

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

The Government does not have a formal minimum fund balance policy.

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 - (Continued)

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

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Capital Outlay Fund	Property Taxes
Special Education Fund	Property Taxes and Grants

n. Pensions:

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

NOTE 2 - IMPLEMENTATION OF NEW ACCOUNTING STANDARD

In 2021, the School District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities accounting standard. This statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The implementation of this standard required that the School District present a Statement of Changes in Fiduciary Net Position for Custodial Funds for 2021. The implementation of this standard required the School District to reclassify previously reported agency funds as custodial funds.

NOTE 3 - DEFICIT FUND BALANCES/NET POSITION OF INDIVIDUAL NONMAJOR FUND

As of June 30, 2021, the Preschool Fund had a deficit fund balance/net position in the amount of \$55,668. The Governing Board plans to make an operating transfer to correct the deficit.

NOTE 4 - DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

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

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

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

As of June 30, 2021, the School District's investments reported in the financial statements consist of only certificates of deposit.

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

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 4 - (Continued)

Concentration of Credit Risk - The School District places no limit on the amount that may be invested in any one issuer. All of the School District's investments are in certificates of deposit with the Campbell County Bank.

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

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit interest income from the General Fund and Special Education Fund pooled account to the General Fund. All other funds have their own accounts with interest being credited to that fund. Certificates of deposit interest income is credited to the fund making the investment.

NOTE 5 - RESTRICTED CASH AND INVESTMENTS

Assets restricted to use for Athletics, Music, and Veterans' Memorial through segregation of balances in separate accounts totals \$15,183 for the year ended June 30, 2021.

NOTE 6 - RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year. No allowances for estimated uncollectibles have been determined to be necessary.

NOTE 7 - INVENTORY

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

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

In the governmental fund financial statements, inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories are equally offset by Nonspendable Fund Balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

NOTE 8 - PROPERTY TAXES

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

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

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 9 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2021, is as follows:

Primary Government

	Balance 7/1/2020	Increases	Decreases	Balance 6/30/2021
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 5,464	\$ -	\$ -	\$ 5,464
Capital assets, being depreciated:				
Improvements	213,939	-	-	213,939
Buildings	1,796,985	83,129	43,500	1,836,614
Machinery and equipment	671,082	135,465	2,592	803,955
Total, being depreciated	2,682,006	218,594	46,092	2,854,508
Less accumulated depreciation for:				
Improvements	97,058	2,635	-	99,693
Buildings	938,216	58,512	27,840	968,888
Machinery and equipment	495,969	32,805	2,342	526,432
Total accumulated depreciation	1,531,243	93,952	30,182	1,595,013
Total capital assets, being depreciated, net	1,150,763	124,642	15,910	1,259,495
Total governmental activity capital assets, net	\$ 1,156,227	\$ 124,642	\$ 15,910	\$ 1,264,959

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Instruction	\$ 37,480
Support Services	48,101
Cocurricular Activities	8,371
Total depreciation expense - governmental activities	\$ 93,952

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 9 - (Continued)

	Balance 7/1/2020	Increases	Decreases	Balance 6/30/2021
Business-type activities:				
Capital assets, being depreciated:				
Machinery and equipment	\$ 54,899	\$ -	\$ -	\$ 54,899
Total, being depreciated	54,899	-	-	54,899
Less accumulated depreciation for:				
Machinery and equipment	22,447	3,794	-	26,241
Total accumulated depreciation	22,447	3,794	-	26,241
Total business-type activity				
capital assets, net	<u>\$ 32,452</u>	<u>\$ (3,794)</u>	<u>\$ -</u>	<u>\$ 28,658</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:	
Food Service	<u>\$ 3,794</u>

NOTE 10 - LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities for the year ended June 30, 2021, is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Primary Government:					
Governmental Activities:					
Capital Outlay Certificates	\$ 262,691	\$ -	\$ 49,467	\$ 213,224	\$ 50,958
Total Debt	262,691	-	49,467	213,224	50,958
Compensated Absences	4,660	4,660	4,660	4,660	4,660
Total Governmental Activities	<u>\$ 267,351</u>	<u>\$ 4,660</u>	<u>\$ 54,127</u>	<u>\$ 217,884</u>	<u>\$ 55,618</u>

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 10 - (Continued)

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

Liabilities payable at June 30, 2021, are comprised of the following:

PRIMARY GOVERNMENT

Governmental Activities:

Capital Outlay Certificates:

Maturity date of June 15, 2025, with an interest rate of 2.95% payable from the Capital Outlay Fund	<u>\$ 213,224</u>
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Compensated Absences:

Payable from the General Fund	<u>\$ 4,660</u>
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The annual debt service requirements to maturity, except for compensated absences, for all debt outstanding as of June 30, 2021, are as follows:

Annual Requirements to Maturity for Long-Term Debt
June 30, 2021

Year Ending June 30,	Capital Outlay Certificates Payable	
	Principal	Interest
2022	\$ 50,958	\$ 6,000
2023	52,493	4,465
2024	54,068	2,890
2025	<u>55,705</u>	<u>1,254</u>
Totals	<u>\$ 213,224</u>	<u>\$ 14,609</u>

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 11 - LEASES

The School District is leasing two Canon copiers from Marco, Inc. The Capital Outlay Fund is making the lease payments. One lease is for 48 months with monthly payments of \$611 starting September 4, 2019. The other lease is for 60 months with monthly payments of \$370 starting May 23, 2018. Payments made in the year ended June 30, 2021, totaled \$20,516.

The following are the minimum payments required for existing operating leases:

<u>Year</u>	<u>Capital Outlay Fund</u>
2022	\$ 11,772
2023	11,402
2024	7,332
2025	<u>1,833</u>
Total	<u>\$ 32,339</u>

The School District entered into a one-year capital lease for a bus on November 30, 2020. The total cost of the bus was \$53,999 with the purchase option of \$1 at the end of the lease, and an interest rate of 4.008%. The Capital Outlay Fund is making the lease payments. Payments made in the year ended June 30, 2021, totaled \$27,705. Of these payments, \$27,530 was principal, and \$175 was interest expense. This capital lease has a maturity date of November 30, 2021. The current portion of the total obligation is included in other current liabilities. Assets held under capital leases are included in net capital assets on the statement of net position.

NOTE 12 - INDIVIDUAL FUND INTERFUND BALANCES AND TRANSACTIONS

Interfund receivable and payable balances at June 30, 2021, were:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 62,676	\$ -
Food Service Fund	-	10,671
Preschool Fund	<u>-</u>	<u>52,005</u>
Total	<u>\$ 62,676</u>	<u>\$ 62,676</u>

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 13 - RESTRICTED NET POSITION

Restricted net position for the year ended June 30, 2021, were as follows:

<u>Purpose</u>	<u>Restricted By</u>	<u>Amount</u>
Major Purposes:		
Capital Outlay Purposes	Law	\$ 979,220
Special Education Purposes	Law	180,962
SDRS Pension Purposes	Law	45,829
Other Purposes:		
Athletics	Outside Sources	8,518
Music	Outside Sources	5,525
Veterans' Memorial	Outside Sources	<u>1,140</u>
Total Restricted Net Position		<u><u>\$ 1,221,194</u></u>

These balances are restricted due to federal grant and statutory requirements and outside sources.

NOTE 14 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2021, were as follows:

<u>Transfers from:</u>	<u>Transfers to:</u>	
	<u>General Fund</u>	<u>Food Service Fund</u>
Major Funds:		
General Fund		<u>\$ 15,000</u>
Capital Outlay	<u>\$ 240,900</u>	

The purpose of the interfund transfers was to provide money to help with general operation expenses.

NOTE 15 - PENSION PLAN

Plan Information:

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

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 15 - (Continued)

Benefits Provided:

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

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

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

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to 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.

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2021, 2020, and 2019, were \$54,866, \$53,959, and \$54,692, respectively, equal to the required contributions each year.

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 15 - (Continued)

Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2020, SDRS is 100.04% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the School District as of June 30, 2021, are as follows:

Proportionate share of pension liability	\$ 4,983,924
Less proportionate share of net position restricted for pension benefits	<u>4,985,684</u>
Proportionate share of net pension asset	<u><u>\$ (1,760)</u></u>

At June 30, 2021, the School District reported an asset of \$1,760 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2020, and the total pension liability used to calculate the net pension 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, 2020, the School District's proportion was .04054280%, which is a decrease of .0023190% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the School District recognized pension expense of \$76,626. At June 30, 2021, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 6,736	\$ 1,379
Changes in assumption	56,716	228,738
Net difference between projected and actual earnings on pension plan investments	163,654	-
Changes in proportion and difference between School District contributions and proportionate share of contributions	3,610	11,396
School District contributions subsequent to the measurement date	<u>54,866</u>	<u>-</u>
TOTAL	<u><u>\$ 285,582</u></u>	<u><u>\$ 241,513</u></u>

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 15 - (Continued)

\$54,866 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. 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:

2022	\$	(26,127)
2023		(18,104)
2024		2,558
2025		<u>30,877</u>
	\$	<u>(10,796)</u>

Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	6.50 percent at entry to 3.00 percent after 25 years of service
Discount Rate	6.50 percent net of plan investment expense
Future COLAs	1.41 percent

Mortality rates were based on 97% of the RP-2014 Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period of July 1, 2011, to June 30, 2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 15 - (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58%	5.1%
Fixed Income	30%	1.5%
Real Estate	10%	6.2%
Cash	<u>2%</u>	1.0%
Total	<u>100%</u>	

Discount Rate:

The discount rate used to measure the total pension liability was 6.5 percent. 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.

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

The following presents the School District's proportionate share of net pension asset using the discount rate of 6.5 percent, as well as what the School District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.5%) or 1-percentage point higher (7.5%) 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)	\$683,060	\$ (1,760)	\$ (561,931)

Pension Plan Fiduciary Net Position:

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

NOTE 16 - JOINT VENTURES

The School District participates in the joint venture known as Oahe Special Education Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education services to the member school districts.

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

Bowdle School District No. 22-1	16.67%
Eureka School District No. 44-1	16.67%
Herreid School District No. 10-1	16.67%
Hoven School District No. 53-2	16.67%
Selby Area School District No. 62-5	16.66%
Smee School District No. 15-3	16.66%

The co-op's governing board is composed of one representative from each member school district, who is a school board member. The board is responsible for adopting the co-op's budget and setting service fees at a level adequate to fund the adopted budget.

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 16 - (Continued)

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

Separate financial statements for this joint venture are available from Oahe Special Education Cooperative.

At June 30, 2021, this joint venture had total assets of \$589,542, total liabilities of \$85,618 and net position of \$503,924.

NOTE 17 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2021, the School District managed its risks as follows:

Employee Health Insurance:

The School District joined the South Dakota School District Health Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The School District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. There is no lifetime maximum payment per person.

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

Liability Insurance:

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

Worker's Compensation:

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

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 17 - (Continued)

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, 2021, no claims were filed for unemployment benefits. At June 30, 2021, no claims had been filed or were outstanding. It is not anticipated that any claims for unemployment benefits will be filed in the next fiscal year.

NOTE 18 - LITIGATION

At June 30, 2021, the School District was not involved in any litigation.

NOTE 19 - SUBSEQUENT EVENTS

Management has evaluated whether any subsequent events have occurred through June 10, 2022, the date on which the financial statements were available to be issued. Management has determined there are none.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

HERREID SCHOOL DISTRICT NO. 10-1
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - BUDGETARY BASIS
YEAR ENDED JUNE 30, 2021

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Revenue from Local Sources:				
Taxes:				
Ad valorem taxes	\$ 1,025,100	\$ 1,025,100	\$1,078,668	\$ 53,568
Prior years' ad valorem taxes	-	-	13,424	13,424
Utility taxes	64,000	64,000	34,714	(29,286)
Penalties and interest on taxes	-	-	3,384	3,384
Earnings on investments and deposits	1,400	1,400	2,984	1,584
Cocurricular activities:				
Admissions	8,500	8,500	12,933	4,433
Other student activity income	3,300	3,300	4,982	1,682
Other revenue from local sources:				
Contributions and donations	-	-	1,776	1,776
Refund of prior years' expenditures	-	-	20,826	20,826
Judgments	-	-	2,000	2,000
Charges for services	-	-	1,125	1,125
Other	-	-	740	740
Revenue from Intermediate Sources:				
County sources:				
County apportionment	13,000	13,000	18,959	5,959
Revenue in lieu of taxes	-	-	153	153
Revenue from State Sources:				
Grants-in-aid:				
Unrestricted grants-in-aid	180,000	180,000	206,730	26,730
Revenue from Federal Sources:				
Grants-in-aid:				
Unrestricted grants-in-aid received from federal government through the state	-	-	59,500	59,500
Restricted grants-in-aid received from federal government through the state	68,854	68,854	70,051	1,197
TOTAL REVENUES	1,364,154	1,364,154	1,532,949	168,795
EXPENDITURES:				
Instruction:				
Regular programs:				
Elementary	347,750	347,750	393,491	(45,741)
Middle/Junior high	173,000	173,000	162,958	10,042
High school	305,000	305,000	322,959	(17,959)
Special programs:				
Educationally deprived	19,542	19,542	31,471	(11,929)
Support Services:				
Students:				
Guidance	4,175	5,175	4,664	511
Instructional staff:				
Improvement of instruction	28,003	28,003	-	28,003
Educational media	34,430	34,430	11,744	22,686

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
General administration:				
Board of education	33,645	34,045	30,160	3,885
Executive administration	109,050	109,050	84,922	24,128
School administration:				
Office of the principal	10,500	10,500	3,878	6,622
Other	37,150	37,150	26,478	10,672
Business:				
Fiscal services	70,550	70,550	66,294	4,256
Operation and maintenance of plant	163,750	163,750	167,847	(4,097)
Student transportation services	78,600	78,600	88,218	(9,618)
Cocurricular Activities:				
Male activities	25,050	28,050	37,551	(9,501)
Female activities	23,730	23,730	17,657	6,073
Combined activities	40,750	45,750	49,690	(3,940)
Contingencies	25,000	25,000		
Amount transferred		(9,400)	-	15,600
TOTAL EXPENDITURES	1,529,675	1,529,675	1,499,982	29,693
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(165,521)	(165,521)	32,967	198,488
OTHER FINANCING SOURCES (USES):				
Transfers in	195,521	195,521	240,900	45,379
Transfer out	(30,000)	(30,000)	(15,000)	15,000
Sale of surplus property	-	-	43	43
TOTAL OTHER FINANCING SOURCES (USES)	165,521	165,521	225,943	60,422
NET CHANGE IN FUND BALANCES	-	-	258,910	258,910
FUND BALANCE - BEGINNING	696,418	696,418	696,418	-
FUND BALANCE - ENDING	\$ 696,418	\$ 696,418	\$ 955,328	\$ 258,910

HERREID SCHOOL DISTRICT NO. 10-1
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - CAPITAL OUTLAY FUND - BUDGETARY BASIS
YEAR ENDED JUNE 30, 2021

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Revenue from Local Sources:				
Taxes:				
Ad valorem taxes	\$ 496,000	\$ 496,000	\$ 538,383	\$ 42,383
Prior years' ad valorem taxes	900	900	7,806	6,906
Penalties and interest on taxes	-	-	1,889	1,889
Earnings on investments and deposits	750	750	658	(92)
Other revenue from local sources:				
Contributions and donations	-	-	26,227	26,227
TOTAL REVENUES	497,650	497,650	574,963	77,313
EXPENDITURES:				
Instruction:				
Regular programs:				
Elementary	12,500	12,500	17,782	(5,282)
Middle/Junior high	12,500	12,500	4,556	7,944
High school	12,500	12,500	7,919	4,581
Support Services:				
Business:				
Fiscal services	-	-	719	(719)
Facilities acquisition and construction	191,000	191,000	101,933	89,067
Operation and maintenance of plant	-	-	34,784	(34,784)
Student transportation services	31,500	31,500	54,517	(23,017)
Food services	3,000	3,000	2,838	162
Debt Services	67,150	67,150	56,093	11,057
Cocurricular Activities:				
Combined activities	6,000	71,000	92,994	(21,994)
TOTAL EXPENDITURES	336,150	401,150	374,135	27,015
EXCESS OF REVENUE OVER EXPENDITURES	161,500	96,500	200,828	104,328
OTHER FINANCING USES:				
Transfer out	(195,521)	(195,521)	(240,900)	(45,379)
TOTAL OTHER FINANCING USES	(195,521)	(195,521)	(240,900)	(45,379)
NET CHANGE IN FUND BALANCES	(34,021)	(99,021)	(40,072)	58,949
FUND BALANCE - BEGINNING	1,015,046	1,015,046	1,015,046	-
FUND BALANCE - ENDING	\$ 981,025	\$ 916,025	\$ 974,974	\$ 58,949

HERREID SCHOOL DISTRICT NO. 10-1
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - SPECIAL EDUCATION FUND - BUDGETARY BASIS
YEAR ENDED JUNE 30, 2021

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Revenue from Local Sources:				
Taxes:				
Ad valorem taxes	\$ 268,314	\$ 268,314	\$ 227,602	\$ (40,712)
Prior years' ad valorem taxes	450	450	4,468	4,018
Penalties and interest on taxes	-	-	1,122	1,122
Other revenue from local sources:				
Charges for services	300	300	-	(300)
Revenue from Federal Sources:				
Grants-in-aid:				
Restricted grants-in-aid received from federal government through the state	28,186	28,186	14,972	(13,214)
TOTAL REVENUES	297,250	297,250	248,164	(49,086)
EXPENDITURES:				
Instruction:				
Special programs:				
Programs for special education	152,500	153,500	130,545	22,955
Support Services:				
Students:				
Psychological	30,500	30,500	15,145	15,355
Speech pathology	46,250	46,250	44,024	2,226
Student therapy services	37,000	37,000	30,670	6,330
Special education:				
Administrative costs	31,000	37,500	37,535	(35)
TOTAL EXPENDITURES	297,250	304,750	257,919	46,831
NET CHANGE IN FUND BALANCES	-	(7,500)	(9,755)	(2,255)
FUND BALANCE - BEGINNING	189,172	189,172	189,172	-
FUND BALANCE - ENDING	\$ 189,172	\$ 181,672	\$ 179,417	\$ (2,255)

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND
AND FOR EACH MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET
JUNE 30, 2021

NOTE 1 - BUDGETS AND BUDGETARY ACCOUNTING

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

1. Prior to the first regular 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 15th of 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 fiduciary 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 percent of the total school district budget and may be transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year. No amount of expenditures may be charged directly to the contingency line item in the budget.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the school board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
11. Budgets for the General Fund and each major Special Revenue Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

NOTE 2 - USGAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES

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

HERREID SCHOOL DISTRICT NO. 10-1
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
LAST 7 FISCAL YEARS*

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	0.0405428%	0.0428618%	0.0408717%	0.0383462%	0.036713%	0.038593%	0.040308%
District's proportionate share of net pension liability (asset)	\$ (1,761)	\$ (4,542)	\$ (953)	\$ (3,480)	\$ 124,011	\$ (163,684)	\$ (290,402)
District's covered payroll	\$ 899,323	\$ 911,534	\$ 849,685	\$ 776,246	\$ 698,092	\$ 703,790	\$ 704,877
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	0.20%	0.50%	0.11%	0.45%	17.76%	23.26%	41.20%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100%	100%	100%	100%	97%	104%	107%

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30 of the previous fiscal year. Until a full 10-year trend is compiled, the School District will present information for those years for which information is available.

HERREID SCHOOL DISTRICT NO. 10-1
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT'S PENSION CONTRIBUTIONS
LAST 10 FISCAL YEARS

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 54,866	\$ 53,959	\$ 54,692	\$ 50,981	\$ 46,575	\$ 41,886	\$ 42,227	\$ 42,292	\$ 37,558	\$ 36,699
Contributions in relation to the contractually required contribution	<u>54,866</u>	<u>53,959</u>	<u>54,692</u>	<u>50,981</u>	<u>46,575</u>	<u>41,886</u>	<u>42,227</u>	<u>42,292</u>	<u>37,558</u>	<u>36,699</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 914,429	\$ 899,323	\$ 911,534	\$ 849,685	\$ 776,246	\$ 698,092	\$ 703,790	\$ 704,877	\$ 625,956	\$ 611,653
Contributions as a percentage of covered payroll	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) AND SCHEDULE OF
PENSION CONTRIBUTIONS
JUNE 30, 2021

Changes from Prior Valuation

The June 30, 2020 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2019 Actuarial Valuation. One change in actuarial assumptions and two plan provision changes are reflected and described below.

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

Benefit Provision Changes

Legislation enacted in 2020 established a Qualified Benefit Preservation Arrangement (QBPA) under Section 415(m) of the Internal Revenue Code (IRC). The QBPA is effective July 1, 2020, and pays a portion of SDRS benefits that are restricted by IRC Section 415(b). The total benefits paid from SDRS and the QBPA will be limited to the applicable 415(b) annual limit, unreduced for early commencement if Members retire prior to age 62 and actuarially increased for late retirement up to age 70 if Members retire after age 65. The Actuarial Valuation considers benefits payable from both SDRS and the QBPA.

Legislation enacted in 2020 also brought the assets and the liabilities of the South Dakota Department of Labor and Regulation Plan into SDRS effective July 1, 2020. With the exception of the accounting results presented in Section 6 of this report, all exhibits include the assets, liabilities, and member counts of the former Department of Labor and Regulation Plan Members.

Actuarial Assumption Changes

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2019, and exists again this year as of June 30, 2020. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.88% as of June 30, 2019, and is 1.41% as of June 30, 2020.

The changes in actuarial assumptions due to the 1.41% restricted maximum COLA decreased the Actuarial Accrued Liability by \$595 million, or 4.6% of the Actuarial Accrued Liability based on the 1.88% restricted maximum COLA.

Actuarial assumptions are reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2022 Actuarial Valuation and any recommended changes anticipated to be first implemented in the June 30, 2022 Actuarial Valuation.

Actuarial Method Changes

No changes in actuarial methods were made since the prior valuation.