



Financial Statements
June 30, 2021

Faith School District No. 46-2

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School Board President	Scott Vance
School Board Vice-President	Noma Welter
School Board Members	Justin Haines Lynn Halligan Sharron Johnson
Superintendent	Kelly Daughters
Business Manager	Amie Schauer



Independent Auditor's Report

Members of the School Board
Faith School District No. 46-2
Meade County, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Faith School District No. 46-2, Meade County, South Dakota (the 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

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Faith School District No. 46-2, as of June 30, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Restatement

As discussed in Note 13 to the financial statements, the School District identified in the current year certain errors resulting in an overstatement of payroll-related liability accounts as of June 30, 2020. Accordingly, amounts reported for beginning net position and fund balance have been restated to correct for the errors. Our opinions are not modified with respect to this matter.

Change in Accounting Principle

As discussed in Notes 1 and 13 to the financial statements, the School District has adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, which has resulted in a restatement of the fund balance and 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 management's discussion and analysis, budgetary comparison schedules, and the schedule of employer's share of net pension liability (asset) and employer's contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's financial statements. The School District officials listing is presented for purposes of additional analysis and is not a required part of the financial statements. The School District officials listing has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2022, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

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

Aberdeen, South Dakota
May 31, 2022

This section of Faith School District 46-2's annual financial report presents our discussion and analysis of the School District's financial performance during the fiscal year ended on June 30, 2021. Please read it in conjunction with the School District's financial statements, which follow this section.

Overview of the Financial Statements

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

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the School District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School District government, reporting the School District's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Figure A-1 summarizes the major features of the School District's financial statements, including the portion of the School District government covered and the types of information contained. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1
Major Features of Faith School District's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements Governmental Funds
	Scope	Entire School government (except fiduciary funds).
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.
Type of Asset/Deferred Outflow of Resources/Liability/Deferred Inflow of Resources Information	All assets, deferred outflows, liabilities, and deferred inflows of resources both financial and capital, and short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter. No capital assets included.
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter.

Government-Wide Statements

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

The two government-wide statements report the School District's net position and how they have changed. Net position – the difference between the School District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources – are one way to measure the School District's financial health or position.

- Increases or decreases in the School District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the School District you need to consider additional non-financial factors such as changes in the School District's property tax base and changes in the School District's state aid funding formula from the State of South Dakota.
- Governmental Activities - This category includes the School District's basic instructional services, such as elementary, middle and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, Student Council, Quiz Bowl, etc.), and capital equipment purchases. Property taxes, state grants, federal grants, and interest earnings finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the School District's most significant funds, not the School District as a whole. Funds are accounting devices that the School District uses to keep track of specific sources of funding and spending for particular purposes.

- State law requires some of the funds (such as Capital Outlay and Special Education).
- The school board establishes other funds to control and manage money for particular purposes (such as class accounts).

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

Financial Analysis of the School District as a Whole

Net Position

The School District's combined net position increased as follows:

**Table A-1
Faith School District 46-2
Statement of Net Position**

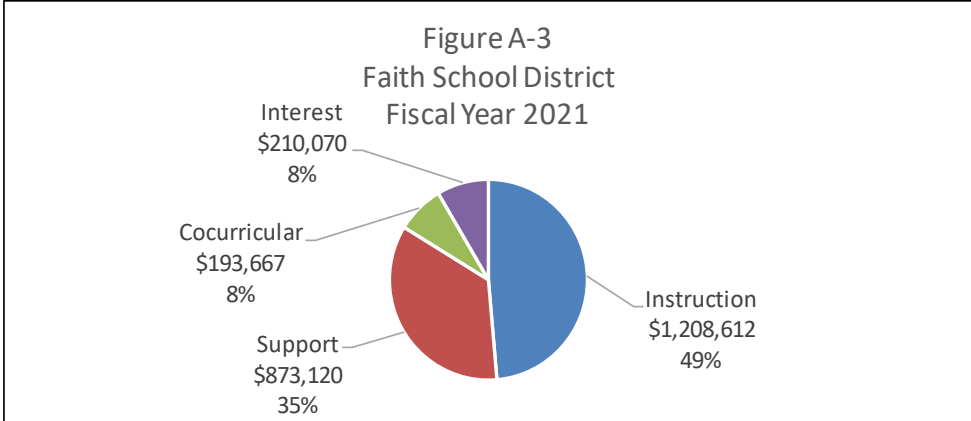
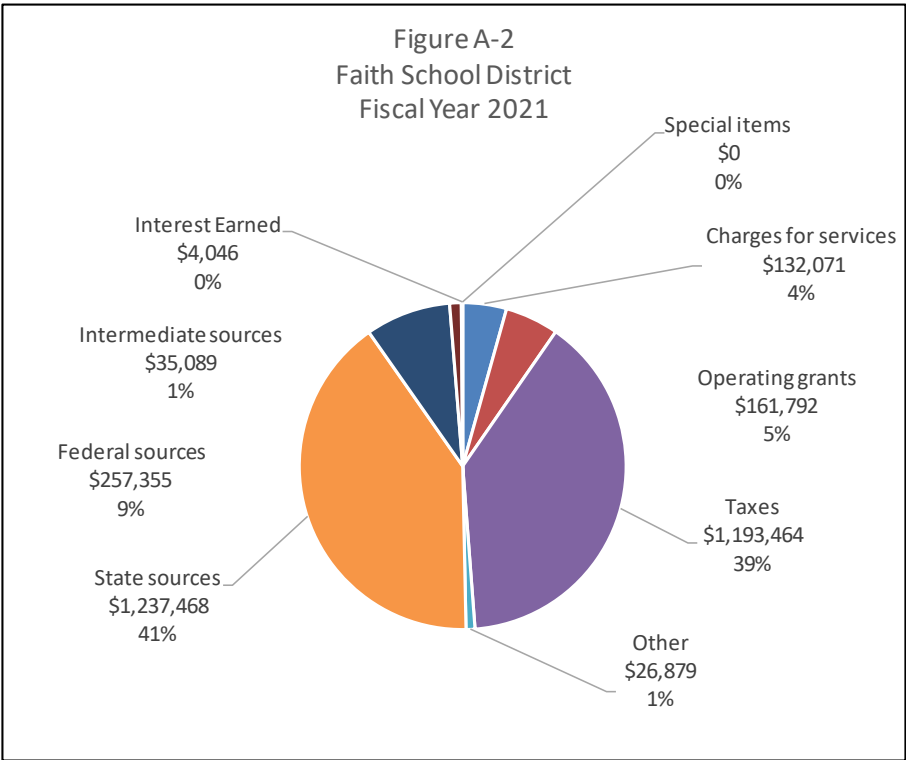
	2021	2020
Assets		
Current and other assets	\$ 5,116,280	\$ 4,433,365
Capital assets	4,816,122	4,828,549
Total assets	9,932,402	9,261,914
Deferred outflows of resources		
Pension plans	326,222	261,257
Liabilities		
Long-term debt outstanding	3,398,669	3,434,520
Other liabilities	151,485	169,652
Total liabilities	3,550,154	3,604,172
Deferred inflows of resources		
Pension plans	257,205	104,030
Taxes levied for future periods	576,992	562,267
Total deferred inflows of resources	834,197	666,297
Net position		
Net investment in capital assets	1,476,122	1,438,549
Restricted	3,486,442	3,157,217
Unrestricted	911,709	656,936
Total net position	\$ 5,874,273	\$ 5,252,702

The statement of net position reports all financial and capital resources. The statement presents the assets and deferred outflows of resources, and liabilities and deferred inflows of resources in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the School District, consisting of compensated absences payable, Qualified Zoning Academy Bonds Payable, Qualified School Construction Bonds Payable, and Capital Outlay Certificates Payable, have been reported on the statement of net position. The difference between the School District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources is its net position.

Changes in Net Position

The School District's total revenues totaled \$3,048,164. (See Table A-2.) Approximately 39% of the School District's revenue comes from property and other tax revenue, with another 41% coming from state aid. (See Figure A-2).

The School District's expenditures totaled \$2,485,469 with approximately 49% to instruction and 35% going to support services. The School District's expenses cover a range of services, encompassing instruction, support services, co-curricular, and interest expense. (See Figure A-3).



Governmental Activities

Table A-2 and the narrative that follows consider the operations of the governmental activities of the School District.

**Table A-2
Faith School District 46-2
Changes in Net Position**

	<u>Total Governmental Activities 2021</u>	<u>Total Governmental Activities 2020</u>
Revenues		
Program revenues		
Charges for services	\$ 132,071	\$ 37,788
Operating grants and contributions	161,792	130,932
General revenues		
Taxes	1,193,464	1,053,155
Other	26,879	28,338
Revenue state sources	1,237,468	1,130,677
Revenue federal sources	257,355	185,503
Revenue intermediate sources	35,089	27,058
Unrestricted investment earnings	4,046	26,000
Special items	-	1,111
Total revenues	<u>3,048,164</u>	<u>2,620,562</u>
Expenses		
Instruction	1,208,612	1,256,285
Support services	873,120	787,577
Co-curricular activities	193,667	115,733
Interest (unallocated)	210,070	186,621
Total expenses	<u>2,485,469</u>	<u>2,346,216</u>
Revenues over Expenses	562,695	274,346
Loss on disposal of capital assets	<u>(7,410)</u>	<u>-</u>
Increase in Net Position	555,285	274,346
Net Position - Beginning of Year, 2021 as Restated	<u>5,318,988</u>	<u>4,978,356</u>
Net Position - End of Year	<u>\$ 5,874,273</u>	<u>\$ 5,252,702</u>

Revenues for governmental activities were \$3,048,164, while total expenses amounted to \$2,485,469, resulting in an increase of \$555,285 in net position after the loss on disposal of capital assets. The main reasons are:

- An increase state and federal revenue sources.
- An increase in operating grants and contributions.
- An increase in charges for services related to adoption of GASB 84.
- A decrease in instruction service expenses.

Financial Analysis of the School District's Funds

- In governmental funds, major fund balances changed as follows: General Fund increased \$206,988 due to an increase in tax revenue, state aid, and grants-in-aid; Capital Outlay increased \$187,527 over 2020 due to an increase in tax revenue and COVID grants from the federal government; and Special Education increased \$47,332 due to an increase in tax revenue.

Budgetary Highlights

- Faith School District staff base salary was increased from \$36,045 to \$36,145 based on the new funding formula which mandated average teacher salary and benefits total at least \$48,500.
- Enrollment is always a major factor as enrollment determines the amount of state aid received.
- Faith School District adopted the provisions of GASB Statement No. 84 during fiscal year 2021 which resulted in previously reported Agency Funds now no longer fiduciary under GASB 84. Beginning 2021 net position and fund balance was restated to reflect this activity within the General Fund. Fiscal year 2021 budget to actual amounts reflect this former Agency Fund activity within the General Fund which was not originally budgeted for in the approved General Fund budget, resulting in presented total fund expenditures in excess of appropriations for fiscal year 2021.

Net Pension Liability (Asset)

The School District had a net pension asset of \$1,952 at June 30, 2021, related to GASB Statement No. 68, which requires the reporting of the asset as well as the other pension amounts on the statement of net position.

Capital Asset Administration

By the end of fiscal year 2021, the School District had invested \$4,816,122 in a broad range of capital assets including, land, buildings, and various machinery and equipment. (See Table A-3.) This amount represents a net decrease of \$12,427 (including additions and deletions) over last year resulting from the addition and deletion of equipment and net accumulated depreciation. See Note 4 for further information on capital assets.

Table A-3
Faith School District 46-2
Capital Assets (Net of Depreciation)

	Governmental Activities	
	2021	2020
Land	\$ 17,377	\$ 17,377
Buildings (net)	4,500,368	4,572,848
Machinery and equipment (net)	298,377	238,324
Total capital assets (net)	\$ 4,816,122	\$ 4,828,549

Long-Term Debt

During fiscal year 2011, Qualified School Construction Bonds for the new school were acquired as debt. During fiscal year 2005, Qualified Zoning Academy Bonds and a loan from the US Department of Agriculture were acquired as debt. At year-end, the School District had \$3,398,669 in net Capital Outlay Certificates and other long-term obligations. See Table A-4 below.

Table A-4
Faith School District 46-2
Outstanding Debt and Obligations

	Governmental Activities		Change	Change
	2021	2020	2020-2021	2020-2021
Compensated absences	\$ 58,669	\$ 44,520	\$ 14,149	31.78%
Capital outlay certificates/ QZAB/QSCB	3,340,000	3,390,000	(50,000)	-1.47%
Total outstanding debt and obligations	\$ 3,398,669	\$ 3,434,520	\$ (35,851)	-1.04%

The School District is liable for the accrued vacation leave payable to 12-month contracts of the superintendent, business manager, and head secretary. Accumulated sick leave of 30 days per qualifying employee is also included here. This increase is the result of the value of the days paid out in accumulated sick leave and vacation leave.

The Qualified School Construction Bonds were awarded in the amount of \$3,340,000 at a rate of 0% for 16 years. The transitions projects were funded through a Qualified Zoning Academy Bond, or QZAB. These dollars, awarded in June 2005, are a federal loan in the amount of \$50,000 at 0% interest over 16 years, which was paid in full during fiscal year 2021.

See Note 5 for further information on long-term debt.

Economic Factors and Next Year's Budgets and Rates

The School District's current economic position has shown a shift with both an increase to assets and liabilities with the building of the new school in 2012. An increase in property valuation allows the School District the ability to increase the amount of revenue generated from property taxes; however, the total amount that can be levied is limited by the State of South Dakota. That levy amount has steadily decreased from \$1.473 in 2019 (payable 2020) to \$1.443 in 2020 (payable 2021) each year. This has caused many districts in the State of South Dakota to opt-out of the tax limitation. Capital Outlay revenues will be held to the previous year's dollar amounts plus growth (if any) rather than based on the land valuation itself. A maximum Special Education levy of \$1.684/1,000 remains in place. The School District passed a \$3 million bond issued to authorize additional taxes to be levied in order to pay for the new building built in 2012.

The funding formula change is based on a 12:1 certified teacher-student ratio with a target certified teacher salary and benefits package of at least \$48,500. School districts will receive funding based on the number of students enrolled in their districts on the last Friday in September. In 2007, a Sparsity Factor was added to the funding formula. The Sparsity Factor added an additional \$110,000 to the School District's fiscal year 2021 state aid payment; however, the limit on the amount of the Sparsity Factor paid is \$110,000, and possibly less, depending on how, and if, the legislature decides to appropriate the funding. Thus, the further the drop in enrollment, combined with additional schools meeting the qualifying criteria, will result in less revenue for the School District to receive.

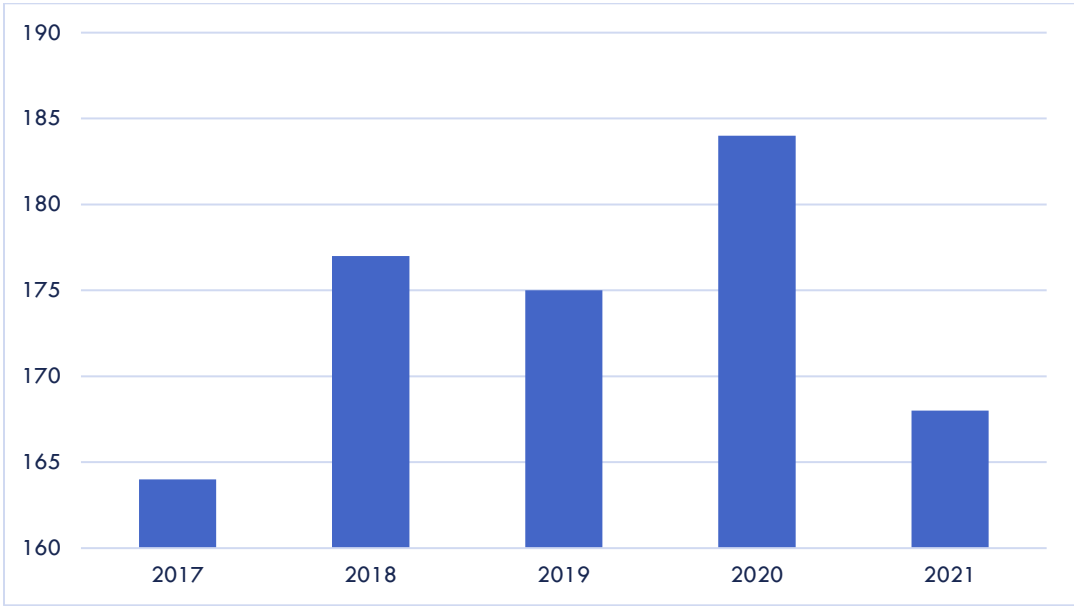
Staffing and enrollments will always be an issue. The lower the enrollment, the lower the state aid. The retirement and movement of staff is a huge hurdle. Location and salary are always a hindrance when it comes to hiring new staff. This can result in increased workload on the remaining staff members through additional students, classes and other duties.

Due to COVID-19, the federal government has tried to lessen the impact felt by school districts by providing additional funding to schools through the Elementary and Secondary Schools Emergency Relief (ESSER I & ESSER II) funds and CARES Act funding. These funds will be used, in part, to hire additional paraprofessionals to assist the workload on teaching staff. In addition, the federal government has also allowed for an extension of the Seamless Summer Option for Food Service. This allows all of our students to eat free of charge.

During 2021, the School District utilized the COVID-19 funding to purchase an air purifying system for our HVAC unit in order to help combat the virus and its spread. We purchased additional Promethean boards and technology for the classrooms to allow for easier transition and instruction online and the professional development to go along with it. Our staff members have been affected by COVID-19 and our ESSER funds have been utilized to pay for substitute wages and additional paraprofessional staffing implemented during 2022 to allow students to spread out more and alleviate class sizes.

One of the biggest questions the School District faced was the number of students who would return in the fall and whether or not the enrollment numbers would fall which would impacts our State Aid funding.

The School District's enrollment for the last five years has been as follows:



Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Faith School District 46-2; PO Box 619; Faith, SD 57626.

Faith School District No. 46-2
Statement of Net Position – Exhibit I
June 30, 2021

	Governmental Activities
Assets	
Cash	\$ 2,444,433
Restricted cash	2,090,337
Taxes receivable	511,983
Inventories	1,248
Other receivables	66,327
Net pension asset	1,952
Capital assets, not being depreciated	
Land	17,377
Capital assets, net of accumulated depreciation	
Buildings	4,500,368
Machinery and equipment	298,377
Total assets	9,932,402
Deferred outflows of resources	
Pension plans	326,222
Liabilities	
Interest payable	40,607
Other current liabilities	110,878
Noncurrent liabilities	
Due within one year	
Compensated absences	15,000
Due in more than one year	
Bonds	3,340,000
Compensated absences	43,669
Net pension liability	
Total liabilities	3,550,154
Deferred Inflows of Resources	
Pension plans	257,205
Taxes levied for future periods	576,992
Total deferred inflows of resources	834,197
Net Position	
Net investment in capital assets	1,476,122
Restricted for	
Capital Outlay	1,154,794
Special Education	161,768
Debt Service	2,090,486
Food Service	8,425
SDRS Pension Plan	70,969
Unrestricted	911,709
Total net position	\$ 5,874,273

Faith School District No. 46-2
Statement of Activities – Exhibit II
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	Total Governmental Activities
Primary Government					
Governmental activities					
Instruction	\$ 1,208,612	\$ -	\$ 109,762	\$ -	\$ (1,098,850)
Support services	873,120	11,035	52,030	-	(810,055)
Co-curricular activities	193,667	121,036	-	-	(72,631)
*Interest on long-term debt	210,070	-	-	-	(210,070)
Total Primary Government	<u>\$ 2,485,469</u>	<u>\$ 132,071</u>	<u>\$ 161,792</u>	<u>\$ -</u>	<u>(2,191,606)</u>
General Revenues					
Taxes					
Property taxes					1,193,464
Other					26,879
Revenue from state sources					
State aid					1,237,468
Revenue from federal sources					257,355
Unrestricted investment earnings					4,046
Other general revenues					35,089
Total general revenues and special items					<u>2,754,301</u>
Loss on disposal of fixed assets					(7,410)
Change in Net Position					555,285
Net Position - Beginning, as restated					<u>5,318,988</u>
Net Position - Ending					<u>\$ 5,874,273</u>

*This amount includes indirect interest expense on general long-term debt.

Faith School District No. 46-2
Balance Sheet – Governmental Funds – Exhibit III
June 30, 2021

	General Fund	Special Revenue Funds		Debt Service	Governmental Funds Food Service	Total Governmental Funds
		Capital Outlay	Special Education			
Assets						
101 Cash and cash equivalents	\$ 1,066,530	\$ 1,174,850	\$ 174,186	\$ 15,887	\$ 12,980	\$ 2,444,433
104 Cash with fiscal agent	-	-	-	2,090,337	-	2,090,337
110 Taxes receivable--current	127,844	172,619	101,970	103,812	-	506,245
112 Taxes receivable--delinquent	2,625	1,409	812	892	-	5,738
120 Accounts receivable, net	1,568	-	-	-	71	1,639
130 Due from Debt Service Fund	3,000	-	-	-	-	3,000
140 Due from other governments	64,688	-	-	-	-	64,688
150 Advance to General Fund	-	-	1,227	-	-	1,227
170 Inventory	-	-	-	-	1,248	1,248
Total assets	\$ 1,266,255	\$ 1,348,878	\$ 278,195	\$ 2,210,928	\$ 14,299	\$ 5,118,555
Liabilities, Deferred Inflows of Resources, and Fund Balances						
Liabilities						
402 Accounts payable	\$ 5,171	\$ 1,279	\$ 374	\$ -	\$ -	\$ 6,824
404 Contracts payable	79,589	-	-	-	4,598	84,187
410 Due to General Fund	-	-	-	3,000	-	3,000
415 Amounts held for others	2,981	-	-	-	-	2,981
450 Payroll deductions and withholdings and employer matching payable	16,514	-	323	-	1,276	18,113
Total liabilities	104,255	1,279	697	3,000	5,874	115,105
Deferred Inflows of Resources						
551 Unavailable revenue - property taxes	2,625	1,409	812	892	-	5,738
551 Taxes levied for future periods	151,015	192,805	115,730	117,442	-	576,992
Total deferred inflows of resources	153,640	194,214	116,542	118,334	-	582,730
Fund Balances						
710 Nonspendable	-	-	1,227	-	1,248	2,475
720 Restricted						
Debt Service	-	-	-	2,089,594	-	2,089,594
Capital Outlay	-	1,153,385	-	-	-	1,153,385
Special Education	-	-	159,729	-	-	159,729
Food Service	-	-	-	-	7,177	7,177
760 Unassigned	1,008,360	-	-	-	-	1,008,360
Total fund balances	1,008,360	1,153,385	160,956	2,089,594	8,425	4,420,720
Total liabilities, deferred inflows of resources and fund balances	\$ 1,266,255	\$ 1,348,878	\$ 278,195	\$ 2,210,928	\$ 14,299	\$ 5,118,555

See Notes to Financial Statements

Total Fund Balances - Governmental Funds			\$ 4,420,720
Amounts reported for governmental activities in the statement of net position are difference because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			4,816,122
Assets, such as taxes receivable, that are not available to pay for current period expenditures are deferred inflows in the fund level statements.			5,738
Deferred outflows and inflows of resources related to pensions are components of pension liability (asset) and, therefore, are not reported in the funds.			69,017
The net pension asset reported in governmental activities is not an available financial resource and, therefore, is not reported in the funds.			1,952
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.			
Interest payable	\$	(40,607)	
Capital outlay certificates		(340,000)	
Bonds		(3,000,000)	
Compensated absences		(58,669)	
			<u>(3,439,276)</u>
Net Position - Governmental Activities			<u>\$ 5,874,273</u>

Faith School District No. 46-2

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Exhibit V
Year Ended June 30, 2021

	General Fund	Special Revenue Funds		Debt Service	Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education		Food Service	
Revenues						
1000 Revenue from local sources						
1100 Taxes						
1110 Ad valorem taxes	\$ 304,570	\$ 404,060	\$ 236,464	\$ 245,569	\$ -	\$ 1,190,663
1120 Prior years' ad valorem taxes	1,146	1,276	731	828	-	3,981
1140 Utility taxes	26,879	-	-	-	-	26,879
1190 Penalties and interest on taxes	1,538	1,387	789	976	-	4,690
1500 Earnings on investments and deposits	1,284	1,344	172	1,245	1	4,046
1600 Food service	-	-	-	-	11,035	11,035
1700 Co-curricular activities						
1710 Admissions	20,951	-	-	-	-	20,951
1790 Other student activity income	100,085	-	-	-	-	100,085
1900 Other revenue from local sources						
1920 Contributions and donations	2,290	-	-	-	-	2,290
1990 Other	11,008	-	-	-	-	11,008
2000 Revenue from intermediate sources						
2100 County sources						
2110 County apportionment	15,101	-	-	-	-	15,101
3000 Revenue from state sources						
3110 Unrestricted grants-in-aid	1,237,468	-	-	-	-	1,237,468
3810 State reimbursements	-	-	-	-	204	204
4000 Revenue from federal sources						
4120 Unrestricted grants-in-aid received from federal government through the state	5,110	92,000	-	-	-	97,110
4140 Restricted grants-in-aid received directly from federal government	3,042	-	-	-	-	3,042
4150-4199 Restricted grants-in-aid received from federal government through the state	109,762	-	-	-	-	109,762
4810 Federal reimbursements	-	-	-	-	48,728	48,728
4820 Donated food	-	-	-	-	3,098	3,098
4900 Other federal revenue	-	-	-	157,203	-	157,203
Total revenue	1,840,234	500,067	238,156	405,821	63,066	3,047,344

Faith School District No. 46-2

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Exhibit V
Year Ended June 30, 2021

Expenditures	General Fund	Special Revenue Funds		Debt Service	Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education		Food Service	
Current						
1000 Instruction						
1110 Elementary	372,011	3,975	-	-	-	375,986
1120 Middle/junior high	91,622	1,135	-	-	-	92,757
1130 High school	355,460	6,309	-	-	-	361,769
1200 Special programs						
1220 Programs for special education	-	-	133,954	-	-	133,954
1270 Educationally deprived	76,703	-	-	-	-	76,703
2000 Support services						
2120 Guidance	13,833	-	-	-	-	13,833
2130 Health	620	-	-	-	-	620
2150 Speech pathology	-	-	4,638	-	-	4,638
2160 Audiology services	-	-	1,632	-	-	1,632
2170 Student therapy services	-	-	13,064	-	-	13,064
2200 Support services - instructional staff						
2210 Improvement of instruction	4,000	-	-	-	-	4,000
2220 Educational media	69,761	-	-	-	-	69,761
2300 Support services - general administration						
2310 Board of Education	34,902	-	-	-	-	34,902
2320 Executive administration	54,871	-	-	-	-	54,871
2400 Support services - school administration						
2410 Office of the Principal	59,440	-	-	-	-	59,440
2440 Title I Director	4,435	-	-	-	-	4,435
2490 Other	62,170	-	-	-	-	62,170
2500 Support services - business						
2520 Fiscal services	61,615	-	-	-	-	61,615
2540 Operation and maintenance of plant	219,091	101,223	-	-	-	320,314
2550 Pupil transportation	-	34,029	-	-	-	34,029
2560 Food service	-	-	-	-	70,180	70,180
2700 Support services - special education						
2710 Administrative costs	-	-	37,364	-	-	37,364
5000 Debt services	-	-	-	260,070	-	260,070

Faith School District No. 46-2
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Exhibit V
Year Ended June 30, 2021

	General Fund	Special Revenue Funds		Debt Service	Other Governmental Funds Food Service	Total Governmental Funds
	<u>General Fund</u>	<u>Capital Outlay</u>	<u>Special Education</u>	<u>Debt Service</u>	<u>Other Governmental Funds Food Service</u>	<u>Total Governmental Funds</u>
6000 Co-curricular activities						
6100 Male activities	31,893	-	-	-	-	31,893
6200 Female activities	23,135	-	-	-	-	23,135
6500 Transportation	18,207	-	-	-	-	18,207
6900 Combined activities	110,993	-	-	-	-	110,993
Capital outlay	-	92,854	-	-	-	92,854
	<u>1,664,762</u>	<u>239,525</u>	<u>190,652</u>	<u>260,070</u>	<u>70,180</u>	<u>2,425,189</u>
Total expenditures						
Excess of revenue over (under) expenditures	175,472	260,542	47,504	145,751	(7,114)	622,155
	<u>175,472</u>	<u>260,542</u>	<u>47,504</u>	<u>145,751</u>	<u>(7,114)</u>	<u>622,155</u>
Other Financing Sources (Uses)						
5110 Transfers in	46,516	-	-	28,671	15,000	90,187
8110 Transfers out	(15,000)	(75,015)	(172)	-	-	(90,187)
5130 Sale of surplus property	-	2,000	-	-	-	2,000
	<u>31,516</u>	<u>(73,015)</u>	<u>(172)</u>	<u>28,671</u>	<u>15,000</u>	<u>2,000</u>
Total other financing sources (uses)						
Net Change in Fund Balance	206,988	187,527	47,332	174,422	7,886	624,155
Fund Balance - Beginning, as restated	801,372	965,858	113,624	1,915,172	539	3,796,565
Fund Balance - Ending	<u>\$ 1,008,360</u>	<u>\$ 1,153,385</u>	<u>\$ 160,956</u>	<u>\$ 2,089,594</u>	<u>\$ 8,425</u>	<u>\$ 4,420,720</u>

Faith School District No. 46-2

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the
 Government-Wide Statement of Activities – Exhibit VI
 Year Ended June 30, 2021

Net Change in Fund Balances - Total Governmental Funds	\$ 624,155
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. This amount represents capital asset purchases which are reported as expenditures on the fund financial statements, but increase assets on the government wide statements.	92,854
In the statement of activities, losses on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized.	(7,410)
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.	(97,871)
Governmental funds report property taxes as revenue in the period for which the tax is levied, subject to availability, but the statement of activities includes the property taxes as revenue in the period for which the taxes are levied, regardless of when collections occurs.	(1,180)
Principal payments on long-term liabilities are an expenditure in the governmental funds, but the payments decrease long-term liabilities in the statement of net position.	50,000
Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn compensated absences.	(14,149)
In the statement of activities, the cost of pension benefits earned net of employee contributions is reported in pension expense. In the governmental funds, however, the contributions are reported as expense.	<u>(91,114)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 555,285</u></u>

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Faith School District No. 46-2 conform to generally accepted accounting principles applicable to governmental entities in the United States of America.

Reporting Entity

The reporting entity of the Faith School District No. 46-2 (the School District) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The School District is financially accountable if its governing board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the School District (primary government). The School District may also be financially accountable for another organization if that organization is fiscally dependent on the School District. The School District has no component units.

The School District participates in a cooperative service unit with six other school districts, Northwest Area Schools Cooperative (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.

Basis of Presentation

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

Government-Wide Statements

The statement of net position and statement of activities display information about the School District as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities, 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, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures/expense. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the School District or it meets the following criteria.

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

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

	Description
General Fund	The General Fund is the general operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund. The General Fund is always a major fund.
Special Revenue Funds: Special Education Fund	A fund established by South Dakota Codified (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 property taxes.

Capital Outlay Fund

A fund established by SDCL 13-16-6 to meet expenditures which result in the acquisition of, or additions to, real property, plant or equipment. This fund is financed by property taxes.

Debt Service Fund

This fund is used to account for the sinking fund accounts restricted to use for the payment of principal on the Series 2005 Qualified Zoning Academy Bonds, Capital Outlay Certificates and 2010 Qualified School Construction Bonds.

Interfund Eliminations

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. In order to eliminate the grossing-up effect on the assets and liabilities within the governmental funds the advances between funds have been eliminated.

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, governmental 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.

Basis of Accounting

Government-Wide Financial Statements

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

Fund Financial Statements

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected, or to be collected, soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle; and, for the School District, the length of that cycle is 60 days. The revenues which are accrued at June 30, 2021, are revenues from federal, state, and local sources.

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.

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.

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

Inventory

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

In the government-wide financial statements and in the fund financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed. In the governmental fund financial statements, the “consumption method” of recording inventory is used.

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.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their acquisition value on the date donated. Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities, with net capital assets reflected in the statement of net position. Capitalization thresholds (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 are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land*	\$ 1,000	N/A	N/A
Buildings	50,000	Straight-line	50-80 years
Machinery/equipment	3,500	Straight-line	5-20 years

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

Fund Financial Statements

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

Long-Term Liabilities

The accounting treatment of long-term liabilities used in governmental fund operations are reported in the government-wide statements.

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

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenues and payments of principal and interest are reported as expenditures when they become due.

Annual leave is earned by the administrative and support staff employees at the rate of two to four weeks per year. Upon termination, employees are entitled to receive compensation for their accrued annual leave balance, up to 30 days, on the basis of the current pay.

Sick leave is earned by the employees at the rate of 5 to 14 days per year, accumulative to 30 days. Upon termination, certified employees (employed for three years or more) are entitled to receive compensation for their accrued sick leave balance on the basis of \$30 per day up to a maximum of 30 days.

As of June 30, 2021, a liability of \$58,669 existed for accumulated unpaid leave balance (annual and sick) calculated at \$30 per unused leave day (above 30 days) and the employees' June 30, 2021 pay rates.

Deferred Outflows and Inflows of Resources

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

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

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. Investments are reported at fair value.

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.

Equity Classifications

Government-Wide Statements

Net position represents the difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources in the School District's government-wide financial statements, and is displayed in three components:

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

Restricted and Unrestricted Resources

It is the School District's policy to first apply restricted resources when an expenditure is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Balance Classification Policies and Procedures

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 nor committed. Fund balance may be assigned by the Business Manager.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

The nonspendable fund balance is comprised of amounts not in cash form such as advances made to agency funds and inventory.

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

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

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

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

Implementation of GASB Statement No. 84

As of July 1, 2020, the School District adopted GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities, and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhance the value provided by the information reported in the financial statements for assessing government accountability and stewardship. The impact to the School District resulted in certain activities previously reported as fiduciary not being considered fiduciary under GASB 84. The effect of the implementation of this standard on beginning net position and fund balance is disclosed in Note 13.

Note 2 - Deposits and Investments Credit Risk, Concentration 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:

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

Deposits are reported at cost plus interest if the account is of the add-on type. State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District’s policy is to credit all income from deposits and investments to the General Fund, except for the private-purpose trust fund(s) which retains its investment income. U.S. GAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated. These interfund transfers are not violations of the statutory restrictions on interfund transfers.

Custodial Credit Risk-Deposits – Custodial credit risk is the risk that, in the event of a bank failure, the School District’s deposits may not be returned. The School District’s deposit policy requires deposits in excess of the depository insurance maximum to be 100% collateralized as required by South Dakota Codified Law. The financial institutions where the collateral is held must be a member of the FDIC. The School District’s deposits are insured and collateralized by the South Dakota Public Deposit Protection Collateral Program. All deposits are held at First National Bank in Faith. As of June 30, 2021, the School District’s bank balances were \$2,500,072. Of these deposits, \$366,978 was covered by the FDIC and the remaining balance was uninsured but collateralized with securities held by the pledging financial institution.

Restricted Cash and Investments

The School District’s restricted cash for debt service are as follows:

2010 QSCB Bond Sinking Fund	\$ 1,873,960
2010 QSCB Redemption Certificates	216,377
	216,377
Total restricted cash	\$ 2,090,337

As of June 30, 2021, the School District had \$2,090,337 which was held in the South Dakota Public Fund Investment Trust Government Cash Reserve Fund (SD FIT GCR). SD FIT GCR is an unrated, external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts and counties.

The net asset value of the SD FIT GCR is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

	Amortized Cost	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
SD FIT GCR	\$ 2,090,337	\$ -	Daily	Daily

The SD FIT Government Cash Reserve Fund’s objective is to maintain a high degree of liquidity and safety of principal through investment in short-term securities as permitted for South Dakota public agencies under South Dakota law. The fund invests public funds in obligations of the U.S. Government, its agencies and instrumentalities, and that the fund’s custodian takes delivery of the collateral either directly or through an authorized custodian.

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

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

Credit Risk – State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices. As of June 30, 2021, the School District’s investments in the SD FIT GCR was unrated.

Concentration of Credit Risk – The School District places no limit on the amount that may be invested in any one issuer. One hundred percent of the School District’s investments are in the SD FIT GCR.

Note 3 - Property Tax

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

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

Note 4 - Changes in Capital Assets

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

Governmental Activities

	Balance June 30, 2020	Additions	Deletions	Balance June 30, 2021
Capital assets, not being depreciated				
Land	\$ 17,377	\$ -	\$ -	\$ 17,377
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>17,377</u>	<u>-</u>	<u>-</u>	<u>17,377</u>
Capital assets, being depreciated				
Buildings	5,260,649	-	-	5,260,649
Machinery/equipment	<u>580,438</u>	<u>92,854</u>	<u>(26,783)</u>	<u>646,509</u>
Total capital assets being depreciated	<u>5,841,087</u>	<u>92,854</u>	<u>(26,783)</u>	<u>5,907,158</u>
Less accumulated depreciation for				
Buildings	(687,801)	(72,480)	-	(760,281)
Machinery/equipment	<u>(342,114)</u>	<u>(25,391)</u>	<u>19,373</u>	<u>(348,132)</u>
Total accumulated depreciation	<u>(1,029,915)</u>	<u>(97,871)</u>	<u>19,373</u>	<u>(1,108,413)</u>
Total capital assets being depreciated, net	<u>4,811,172</u>	<u>(5,017)</u>	<u>(7,410)</u>	<u>4,798,745</u>
Governmental type activity capital assets, net	<u>\$ 4,828,549</u>	<u>\$ (5,017)</u>	<u>\$ (7,410)</u>	<u>\$ 4,816,122</u>

Depreciation expense was charged to functions as follows:

Governmental activities	
Instruction	\$ 62,180
Support services	26,252
Co-curricular activities	<u>9,439</u>
Total depreciation expense - governmental	<u>\$ 97,871</u>

Note 5 - Long-Term Liabilities

A summary of the changes in long-term liabilities follows:

Governmental Activities

	Bonds Payable				Total
	Capital Outlay Certificate	QZAB	QSCB	Compensated Absences	
Long-term liabilities payable, July 1, 2020	\$ 340,000	\$ 50,000	\$ 3,000,000	\$ 44,520	\$ 3,434,520
Payments of debt obligations	-	(50,000)	-	-	(50,000)
Increase in compensated absences	-	-	-	14,149	14,149
Long-term liabilities payable, June 30, 2021	<u>340,000</u>	<u>-</u>	<u>3,000,000</u>	<u>58,669</u>	<u>3,398,669</u>
Current liabilities, due within one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>15,000</u>
Noncurrent liabilities, due in more than one year	<u>\$ 340,000</u>	<u>\$ -</u>	<u>\$ 3,000,000</u>	<u>\$ 43,669</u>	<u>\$ 3,383,669</u>

Compensated absences for governmental activities typically have been liquidated from the General Fund. The capital outlay certificate and QZAB bonds are paid from property taxes from the Capital Outlay Fund. The QSCB bonds are paid from property taxes from its own Debt Service Fund.

Series 2010 Capital Outlay Certificates are due October 20, 2027. No payment on principal is due until that time. However, semi-annual interest payments are required for the Series 2010 certificates at a rate of 6.25%. The annual payment requirements to maturity for the capital outlay certificate outstanding as of June 30, 2021, are as follows:

Year Ended June 30:	2010 Capital Outlay Certificate		
	Principal	Interest	Total
2022	\$ -	\$ 21,250	\$ 21,250
2023	-	21,250	21,250
2024	-	21,250	21,250
2025	-	21,250	21,250
2026	-	21,250	21,250
2027-2028	<u>340,000</u>	<u>31,875</u>	<u>371,875</u>
Totals	<u>\$ 340,000</u>	<u>\$ 138,125</u>	<u>\$ 478,125</u>

Series 2010 Qualified School Construction Bonds are due October 20, 2027. No payment on principal is due until that time. However semi-annual interest payments are required for the Series 2010 bonds at a rate of 6.25%. The annual payment requirements to maturity for all qualified school construction bonds outstanding as of June 30, 2021, are as follows:

Year Ended June 30:	QSCB Bonds		
	Principal	Interest	Total
2022	\$ -	\$ 187,500	\$ 187,500
2023	-	187,500	187,500
2024	-	187,500	187,500
2025	-	187,500	187,500
2026	-	187,500	187,500
2027-2028	3,000,000	281,250	3,281,250
Totals	<u>\$ 3,000,000</u>	<u>\$ 1,218,750</u>	<u>\$ 4,218,750</u>

Note 6 - Restricted Net Position

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

Fund	Restricted by	Amount
Capital Outlay	Law	\$ 1,154,794
Special Education	Law	161,768
Debt Service	Law	2,090,486
SDRS Pension Plan	Law	70,969
Food Service	Federal Regulation	8,425
Total restricted net position		<u>\$ 3,486,442</u>

Note 7 - Interfund Transfers and Due from/to Other Funds

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

	Transfer to			Total
	General Fund	Debt Service Fund	Other Governmental Funds	
Transfer from				
General Fund	\$ -	\$ -	\$ 15,000	\$ 15,000
Capital Outlay Fund	46,344	28,671	-	75,015
Special Education Fund	172	-	-	172
	\$ 46,516	\$ 28,671	\$ 15,000	\$ 90,187

SDCL 13-16-18 allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from deposits and investments to the General Fund. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for the investment, a transfer to the designated fund is reported. These interfund transfers are not violations of the statutory regulations on interfund transfers.

The transfer from the Capital Outlay Fund to the Debt Service Fund was made to fund the sinking fund accounts for the QZAB bonds. The QZAB debt was an obligation legally required to be repaid from proceeds of the Capital Outlay Fund tax levy, but GAAP requires the use of a debt service fund to account for the accumulation of resources to make the future debt repayment. Accordingly, the reported transfer from the Capital Outlay Fund to the Debt Service Fund is reported to comply with GAAP, and it does not result in a violation of the statutory prohibition of transfers out of the Capital Outlay Fund.

All other interfund transfers made were to supplement various fund operations.

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

Due From	Due to General Fund
Debt Service Fund	\$ 3,000
	Advance from Special Education
Amounts Held	
General Fund	\$ 1,227

Note 8 - Retirement Plan

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 the South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <https://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

SDRS has three different classes of employees: Class A 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 the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater than 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 than 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, was \$62,776, \$59,195, and \$58,461, respectively, equal to the required contributions each year.

Pension Liability (Asset), 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 share of the components of the net pension asset of SDRS for the School District as of the measurement period ending June 30, 2020, and reported by the School District as of June 30, 2021, are as follows:

Proportionate share of total pension liability	\$ 5,526,070
Less proportionate share of net position restricted for pension benefits	<u>5,528,022</u>
 Proportionate share of net pension liability (asset)	 <u><u>\$ (1,952)</u></u>

At June 30, 2021, the School District reported a liability (asset) of \$(1,952) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2020, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the School District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2020, the School District's proportion was 0.0449530%, which was a decrease of 0.0008695% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the School District recognized pension expense of \$91,116. At June 30, 2020, the School District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 7,469	\$ 1,529
Changes in assumption	62,885	253,619
Net difference between projected and actual earnings on pension plan investments	181,457	-
Changes in proportion and difference between School District contributions and proportionate share of contributions	11,635	2,057
School District contributions subsequent to the measurement date	62,776	-
Total	\$ 326,222	\$ 257,205

There is \$62,776 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	\$	(19,734)
2023		(12,996)
2024		5,004
2025		33,967
Total	\$	6,241

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	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50% net of plan investment expense
Future COLAs	1.41%

Mortality rates were based on 97% of the RP-2014 Mortality Table, projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, 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 portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	5.1%
Fixed Income	30.0%	1.5%
Real Estate	10.0%	6.2%
Cash	2.0%	1.0%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

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

The following presents the School District's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50% as well as what the School District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
School District's proportionate share of the net pension liability (asset)	\$ 757,363	\$ (1,952)	\$ (623,057)

Pension Plan Fiduciary Net Position

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

Note 9 - Joint Ventures

The School District participates in the Nwas Cooperative, a cooperative service unit (Co-op) formed for the purpose of providing vocational and special education services to the member school districts.

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

Dupree School District No. 64-2	12.50%
Faith School District No. 46-2	12.50%
Harding County School District No. 31-1	12.50%
Smee School District No. 15-3	12.50%
Tiospaye Topa School	12.50%
McIntosh School District No. 15-1	12.50%
McLaughlin School District No. 15-2	12.50%
Timber Lake School District No. 20-3	12.50%
	100.00%

The Co-op's governing board is composed of eight representatives, one from each member school district, who are school board members. The board is responsible for adopting the Co-op's budget and setting services fees at a level adequate to fund the adopted budget.

The School District retains no equity in the net position of the Co-op, but does have responsibility to fund deficits of the Co-op. As of June 30, 2021, this joint venture had fund equity of \$2,141,181 and liabilities of \$173,564.

Separate financial statements for this joint venture are available from the Northwest Area Schools Multi-District Education Cooperative.

Note 10 - Risk Management

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

Employee Health Insurance

The School District purchases health insurance for its employees from South Dakota School District Benefits Fund (SD SDBF). This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local governmental entities. The School District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage provides for deductibles ranging from \$2,000 to \$2,500, and \$3,000 to \$5,000 for single and family policies, respectively, and 20% coinsurance.

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

Liability Insurance

The School District joined the Associated School Boards of South Dakota Property Liability Fund (ASBSD-PLF), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts. The objective of the ASBSD-PLF is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and to provide them with risk management services, loss control, and risk reduction information, and to obtain lower costs for that coverage. The School District's responsibility is to promptly report to, and cooperate with, the ASBSD-PLF to resolve any incident which could result in a claim being made by or against the School District.

The School District pays an annual premium to provide liability coverage, detailed below, under a claims-made policy, and the premiums are accrued based on the ultimate cost of the experience-to-date of the ASBSD-PLF member, based on their exposure or type of coverage. The School District pays an annual premium to provide coverage related to crime, theft of or damage to property, general liability, automobile liability, and boiler and machinery.

The agreement with ASBSD-PLF provides that the above coverage will be provided to a \$5,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for re-insurance for claims in excess of \$100,000 to the upper limit. The School District carries no deductible for general liability and automobile liability coverages, \$1,000 for crime and boiler and machinery, deductibles ranging from \$2,500 - \$10,000 for theft or damage to property, a \$5,000 defense only claims, and \$10,000 school board legal liability claims deductible for the school board legal liability coverage.

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 during the past three years.

Workers' Compensation

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provided workers' compensation insurance coverage for participating members of the pool. The objective of the pool is to formulate, develop and administer, on behalf of the member organizations, a program of workers' compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to, and cooperate with, the pool to resolve any workers' compensation claims. The School District pays an annual premium, to provide workers' compensation coverage for its employees under a retrospectively rated policy, and the premiums are accrued based on the ultimate cost of the experience-to-date of the pool 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 during the past three years.

Unemployment Benefits

The School District provides for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

During the year ended June 30, 2021, there were no claims for unemployment benefits. At June 30, 2021, no claim had been filed for unemployment benefits and none are anticipated in the next fiscal year.

Note 11 - Leases

The District leases gymnasium space under a long-term lease agreement classified as an operating lease. The lease commenced in May 2021 and has a three-year term with semi-annual payments due of \$15,000. The District also leases a copier under an operating lease agreement. The lease commenced in June 2016 with a term of 63 months with monthly payments due of approximately \$616.

The following details the minimum lease payments due under these operating leases:

Year Ending June 30,	Amount
2022	\$ 31,847
2023	30,000
2024	30,000
	\$ 91,847

The Capital Outlay Fund is responsible for making payments under these leases.

Note 12 - Commitments and Contingencies

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

Note 13 - Adoption of New Standard and Restatement

As of July 1, 2020, the School District adopted GASB Statement No. 84, *Fiduciary Activities* (GASB 84). Certain agency funds previously accounted for activities that are not considered fiduciary in nature under the provisions of GASB 84 and are now reported in the General Fund.

The School District restated the net position and fund balance of the funds in the table indicated below to appropriately reflect the July 1, 2020 implementation of GASB 84.

During 2021, management identified certain payroll related liability accounts to be overstated within the 2020 financial statements. The School District restated the net position and fund balance of the funds in the table indicated below to appropriately reflect the July 1, 2020 balances as corrected.

	General Fund	Special Education Fund	Funds Food Service	Governmental Activities
Fund Balance/Net Position at July 1, 2020, as previously reported	\$ 743,582	\$ 107,638	\$ (1,971)	\$ 5,252,702
Correction of 2020 payroll deduction liability balances	(11,752)	5,986	2,510	(3,256)
Reclassification from agency funds	69,542	-	-	69,542
Fund Balance/Net Position at July 1, 2020, as restated	\$ 801,372	\$ 113,624	\$ 539	\$ 5,318,988



Required Supplementary Information
June 30, 2021

Faith School District No. 46-2

Faith School District No. 46-2
Budgetary Comparison Schedule – General Fund
Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1100 Ad valorem taxes	\$ 290,050	\$ 290,050	\$ 304,570	\$ 14,520
1120 Prior years' ad valorem taxes	1,500	1,500	1,146	(354)
1140 Utility taxes	6,500	6,500	26,879	20,379
1190 Penalties and interest on taxes	1,500	1,500	1,538	38
1500 Earnings on investments and deposits	2,000	2,000	1,284	(716)
1700 Co-curricular activities				
1710 Admissions	17,950	17,950	20,951	3,001
1790 Other pupil activity income	2,000	2,000	100,085	98,085
1900 Other revenue from local sources				
1920 Contributions and donations	500	500	2,290	1,790
1950 Refund of prior years' expenditures	500	500	-	(500)
1990 Other	2,500	2,500	11,008	8,508
2000 Revenue from intermediate sources				
2100 County source				
2110 County apportionment	18,000	18,000	15,101	(2,899)
3000 Revenue from state sources				
3100 Grants-in-aid				
3110 Unrestricted grants-in-aid	1,201,350	1,201,350	1,237,468	36,118
4000 Revenue from federal sources				
4100 Grants-in-aid				
4120 Unrestricted grants-in-aid received from federal government through the state	10,000	10,000	5,110	(4,890)
4140 Restricted grants-in-aid received directly from federal government	10,780	10,780	3,042	(7,738)
4150-4199 Restricted grants-in-aid received from federal government through the state	124,570	124,570	109,762	(14,808)
Total revenue	<u>1,689,700</u>	<u>1,689,700</u>	<u>1,840,234</u>	<u>150,534</u>

Faith School District No. 46-2
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
1000 Instruction				
1100 Regular program				
1110 Elementary	376,200	390,405	372,011	18,394
1120 Middle/junior high	95,775	97,910	91,622	6,288
1130 High school	354,420	360,105	355,460	4,645
1200 Special programs				
1270 Educationally deprived	78,070	78,070	76,703	1,367
2000 Support services				
2100 Pupils				
2120 Guidance	13,975	14,670	13,833	837
2130 Health	1,150	1,150	620	530
2200 Instructional staff				
2210 Improvement of instruction	3,150	4,150	4,000	150
2220 Educational media	66,400	71,540	69,761	1,779
2300 General administration				
2310 Board of Education	40,975	40,975	34,902	6,073
2320 Executive administration	54,500	55,935	54,871	1,064
2400 School administration				
2410 Office of the Principal	59,000	60,360	59,440	920
2440 Title I Director	4,435	4,435	4,435	-
2490 Other	62,075	64,450	62,170	2,280
2500 Business				
2520 Fiscal services	61,300	62,660	61,615	1,045
2540 Operation and maintenance of plant	227,650	227,650	219,091	8,559
6000 Cocurricular activities				
6100 Male activities	29,900	34,000	31,893	2,107
6200 Female activities	24,450	24,450	23,135	1,315
6500 Transportation	34,400	34,400	18,207	16,193
6900 Combined activities	30,400	31,400	110,993	(79,593)
7000 Contingencies	64,290	40,490	-	40,490
Amount transferred	-	(40,490)	-	(40,490)
Total expenditures	<u>1,682,515</u>	<u>1,658,715</u>	<u>1,664,762</u>	<u>(6,047)</u>
Revenue over expenditures	<u>7,185</u>	<u>30,985</u>	<u>175,472</u>	<u>144,487</u>

Faith School District No. 46-2
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Financing Sources (Uses)				
5110 Transfers in	64,920	64,920	46,516	(18,404)
8110 Transfers out	(20,065)	(20,065)	(15,000)	5,065
Total other financing sources (uses)	44,855	44,855	31,516	(13,339)
Net Change in Fund Balance	52,040	75,840	206,988	131,148
Fund Balance - Beginning, as restated	801,372	801,372	801,372	-
Fund Balance - Ending	<u>\$ 853,412</u>	<u>\$ 877,212</u>	<u>\$ 1,008,360</u>	<u>\$ 131,148</u>

Faith School District No. 46-2
Budgetary Comparison Schedule – Capital Outlay
Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1110 Ad valorem taxes	\$ 380,000	\$ 380,000	\$ 404,060	\$ 24,060
1120 Prior years' ad valorem taxes	1,500	1,500	1,276	(224)
1190 Penalties and interest on taxes	1,300	1,300	1,387	87
1500 Earnings on investments and deposits	1,200	1,200	1,344	144
4000 Revenue from federal sources				
4100 Grants-in-aid				
4120 Unrestricted grants-in-aid received from federal government through the	91,000	91,000	92,000	1,000
4150-4199 Restricted grants-in-aid received from federal government through the state	-	41,250	-	(41,250)
Total revenue	<u>475,000</u>	<u>516,250</u>	<u>500,067</u>	<u>(16,183)</u>
Expenditures				
1000 Instruction				
1110 Elementary	19,000	19,000	3,975	15,025
1120 Middle/junior high	2,900	2,900	1,135	1,765
1130 High School	8,300	8,300	6,309	1,991
2500 Support services - business				
2530 Facilities acquisition and construction	-	41,250	-	41,250
2540 Operation and maintenance of plant	313,800	313,800	194,077	119,723
2550 Pupil transportation	47,000	47,000	34,029	12,971
Total expenditures	<u>391,000</u>	<u>432,250</u>	<u>239,525</u>	<u>192,725</u>
Revenue over expenditures	<u>84,000</u>	<u>84,000</u>	<u>260,542</u>	<u>176,542</u>
Other financing sources (uses)				
8110 Transfers out	(84,000)	(84,000)	(75,015)	8,985
5130 Sale of surplus property	-	-	2,000	2,000
Total other financing sources (uses)	<u>(84,000)</u>	<u>(84,000)</u>	<u>(73,015)</u>	<u>10,985</u>
Net Change in Fund Balance	-	-	187,527	187,527
Fund Balance - Beginning	<u>965,858</u>	<u>965,858</u>	<u>965,858</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 965,858</u>	<u>\$ 965,858</u>	<u>\$ 1,153,385</u>	<u>\$ 187,527</u>

Faith School District No. 46-2
Budgetary Comparison Schedule – Special Education
Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1100 Ad valorem taxes	\$ 217,200	\$ 217,200	\$ 236,464	\$ 19,264
1120 Prior years' ad valorem taxes	500	500	731	231
1190 Penalties and interest on taxes	550	550	789	239
1500 Earnings on investments and deposits	100	100	172	72
Total revenue	<u>218,350</u>	<u>218,350</u>	<u>238,156</u>	<u>19,806</u>
Expenditures				
1200 Special program				
1220 Programs for special education	129,500	135,935	133,954	1,981
2000 Support services				
2100 Pupils				
2140 Psychological	2,500	2,500	-	2,500
2150 Speech pathology	12,500	12,500	4,638	7,862
2160 Audiology services	2,000	2,000	1,632	368
2170 Student therapy services	34,500	27,865	13,064	14,801
2700 Support Services				
2710 Administrative costs	37,200	37,400	37,364	36
Total expenditures	<u>218,200</u>	<u>218,200</u>	<u>190,652</u>	<u>27,548</u>
Revenue over expenditures	<u>150</u>	<u>150</u>	<u>47,504</u>	<u>47,354</u>
Other financing sources (uses)				
8110 Transfers out	<u>(150)</u>	<u>(150)</u>	<u>(172)</u>	<u>(22)</u>
Total other financing sources (uses)	<u>(150)</u>	<u>(150)</u>	<u>(172)</u>	<u>(22)</u>
Net Change in Fund Balance	-	-	47,332	47,332
Fund Balance - Beginning, as restated	<u>113,624</u>	<u>113,624</u>	<u>113,624</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 113,624</u>	<u>\$ 113,624</u>	<u>\$ 160,956</u>	<u>\$ 47,332</u>

Note 1 - Basis of Presentation

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

Note 2 - Budgetary Legal Requirements

South Dakota Codified Law prescribes the budgetary procedures to be followed by the School District as follows:

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 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the School Board, the operating budget is legally binding at the fund level and actual expenditures of each fund cannot exceed the amounts budgeted for that fund, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund, capital project funds, and special revenue funds. Formal budgetary integration is not employed for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Generally accepted accounting principles prescribe that budgetary information be presented for the General Fund and special revenue funds of the School District only.

Schedule of Employer's Share of Net Pension Liability (Asset) and Schedule of Employer's Contributions

June 30, 2021

**Schedule of Employer's Share of Net Pension Liability (Asset)
Last 10 Fiscal Years***

<u>Pension Plan</u>	<u>Measurement Date</u>	<u>Employer's Proportion (Percentage) of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)</u>	<u>Employer's Covered Payroll (b)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)</u>
SDRS	6/30/2020	0.0449530%	\$ (1,952)	\$ 987,572	-0.20%	100.04%
SDRS	6/30/2019	0.0458225%	\$ (4,856)	\$ 974,352	-0.50%	100.09%
SDRS	6/30/2018	0.0495173%	\$ (1,155)	\$ 1,029,416	-0.11%	100.02%
SDRS	6/30/2017	0.0490322%	\$ (4,450)	\$ 996,506	-0.45%	100.10%
SDRS	6/30/2016	0.0461941%	\$ 156,039	\$ 879,980	17.73%	96.89%
SDRS	6/30/2015	0.0481345%	\$ (204,152)	\$ 897,683	-22.74%	104.10%
SDRS	6/30/2014	0.0518585%	\$ (373,619)	\$ 900,553	-41.49%	107.30%

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

**Schedule of Employer's Contributions
Last 10 Fiscal Years***

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Statutorily Required Contributions (a)</u>	<u>Contributions in Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered Payroll (d)</u>	<u>Contributions as a Percentage of Covered Payroll (b/d)</u>
SDRS	6/30/2021	\$ 62,776	\$ 62,776	\$ -	\$ 1,046,257	6.0%
SDRS	6/30/2020	\$ 59,195	\$ 59,195	\$ -	\$ 987,572	6.0%
SDRS	6/30/2019	\$ 58,461	\$ 58,461	\$ -	\$ 974,352	6.0%
SDRS	6/30/2018	\$ 61,765	\$ 61,765	\$ -	\$ 1,029,416	6.0%
SDRS	6/30/2017	\$ 59,790	\$ 59,790	\$ -	\$ 996,506	6.0%
SDRS	6/30/2016	\$ 52,799	\$ 52,799	\$ -	\$ 879,980	6.0%
SDRS	6/30/2015	\$ 53,861	\$ 53,861	\$ -	\$ 897,683	6.0%

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

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.

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.



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

Members of the School Board
Faith School District No. 46-2
Meade County, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Faith School District No. 46-2, Meade County, South Dakota (the 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 May 31, 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying auditor's comments as items 2021-001 and 2021-002 that we consider to be material weaknesses.

Compliance and Other Matters

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

Faith School District No. 46-2's Responses to Findings

The School District's responses to the findings identified in our audit are described in the accompanying auditor's comments. 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

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

Aberdeen, South Dakota
May 31, 2022

2021-001 Segregation of Duties

Material Weakness

Condition: The District has a lack of segregation of duties in certain areas due to a limited staff.

Criteria: A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause: The School District has insufficient number of staff to adequately separate duties.

Effect: This condition increases the risk that fraud or errors might occur in the financial reporting process and not be detected and corrected on a timely basis by employees in the normal course of performing their assigned function.

Recommendation: While it is recognized that the number of office staff may not be large enough to permit an adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the School Board exercise adequate oversight of the accounting function.

Management's Response: The Faith School District No. 46-2 is a small school district and has limited office staff which does not permit the complete segregation of duties. The School District has in place an internal control procedure to fit our office size. To have proper segregation of duties per audit standards, the School District would need to hire additional office staff. This is not feasible or economically possible for a School District of our size.

2021-002 Preparation of Financial Statements and Footnotes, Audit Journal Entries, and Restatement**Material Weakness**

Condition: The School District requested the external auditors to assist in the preparation of the financial statements and related footnotes for the year ended June 30, 2021. As part of the financial statement preparation process, at times, the external auditors proposed material audit adjustments that were not identified as a result of the School District's existing internal controls and, therefore, could result in a misstatement of the School District's financial statements. During the course of our audit, the need to restate beginning net position and fund balance was identified to correct for certain errors in the 2020 financial statements.

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

Cause: The limited size of the School District's staff and resources cause the inability to prepare the financial statements and footnotes, and could cause the need for auditors to, at times, propose material journal entries. The identified errors in the 2020 issued financial statements requiring misstatement were not detected by current controls put in place by the School District.

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

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, management and those charged with governance should continually be aware of the financial reporting of the School District and change in reporting requirements and should perform a thorough review of all transactions and amounts presented in annual financial statements to identify any potential material misstatements.

Management's Response: The Faith School District No. 46-2 requested the auditor's assistance in preparation of the financial statements and the related footnotes due to cost/benefit and other considerations. At times, we acknowledge the auditors identify material audit adjustments and accept the risk associated with these conditions.

Status of Prior Audit Recommendations

2020-001 Segregation of Duties – Material Weakness

Initial Fiscal Year Finding Occurred: 2008

Finding Summary: The School District has a lack of segregation of duties in certain areas due to a limited staff.

Status: This is a repeat finding listed as 2021-001.

2020-002 Preparation of Financial Statements, Footnotes, and Audit Journal Entries – Material Weakness

Initial Fiscal Year Finding Occurred: 2008

Finding Summary: The School District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Status: This is a repeat finding listed as 2021-002.