

KADOKA AREA SCHOOL DISTRICT NO. 35-2

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
WITH SUPPLEMENTARY INFORMATION**

JUNE 30, 2023

KADOKA AREA SCHOOL DISTRICT NO. 35-2

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INDEPENDENT AUDITOR'S REPORT

To the School Board
Kadoka Area School District No. 35-2
Jackson County, South Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Kadoka Area School District No. 35-2 (the School District)** as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2024, 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, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
March 27, 2024

KADOKA AREA SCHOOL DISTRICT NO. 35-2

STATEMENT OF NET POSITION
JUNE 30, 2023

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,553,028	\$ 8,170	\$ 2,561,198
Accounts receivable, net of allowance	7,294	-	7,294
Taxes receivable	874,544	-	874,544
Due from other governments	2,295,211	8,729	2,303,940
Inventories	-	3,452	3,452
Pledges receivable	58,417	-	58,417
Net pension asset	11,567	200	11,767
Capital assets:			
Not being depreciated	5,952,019	-	5,952,019
Being depreciated, net of depreciation	6,350,086	7,220	6,357,306
Total capital assets	<u>12,302,105</u>	<u>7,220</u>	<u>12,309,325</u>
 Total assets	 <u>18,102,166</u>	 <u>27,771</u>	 <u>18,129,937</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	<u>1,137,040</u>	<u>19,664</u>	<u>1,156,704</u>
LIABILITIES			
Accounts payable	38,909	133	39,042
Contracts payable	345,054	2,355	347,409
Accrued expenses	106,560	1,883	108,443
Revenue received in advance	-	20,089	20,089
Long-term liabilities:			
Portion due or payable within one year:			
Capital outlay certificates	200,000	-	200,000
Leases payable	31,628	-	31,628
Compensated absences	26,954	-	26,954
Portion due or payable after one year:			
Capital outlay certificates	3,505,000	-	3,505,000
Leases payable	67,173	-	67,173
Compensated absences	62,892	-	62,892
 Total liabilities	 <u>4,384,170</u>	 <u>24,460</u>	 <u>4,408,630</u>
DEFERRED INFLOWS OF RESOURCES			
Pension related deferred inflows	680,379	11,766	692,145
Taxes levied for future period	899,596	-	899,596
Deferred inflows - pledges receivable	58,417	-	58,417
 Total deferred inflows of resources	 <u>1,638,392</u>	 <u>11,766</u>	 <u>1,650,158</u>
NET POSITION			
Net investment in capital assets	8,498,304	7,220	8,505,524
Restricted for:			
Capital outlay	1,144,172	-	1,144,172
Special education	169,813	-	169,813
SDRS pension purposes	468,228	8,098	476,326
Unrestricted	2,936,127	(4,109)	2,932,018
 Total net position	 <u>\$ 13,216,644</u>	 <u>\$ 11,209</u>	 <u>\$ 13,227,853</u>

The accompanying notes are an integral part of these financial statements.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Instruction	\$ 3,282,129	\$ -	\$ 951,678	\$ -	\$ (2,330,451)		\$ (2,330,451)
Support services	2,089,436	2,397	378,709	5,631,208	3,922,878		3,922,878
Nonprogrammed charges	34,947	-	-	-	(34,947)		(34,947)
Cocurricular activities	327,772	69,643	-	82,382	(175,747)		(175,747)
Interest and fiscal charges	141,306	-	-	-	(141,306)		(141,306)
Total governmental activities	<u>5,875,590</u>	<u>72,040</u>	<u>1,330,387</u>	<u>5,713,590</u>	<u>1,240,427</u>		<u>1,240,427</u>
Business-type activities:							
Food service	257,102	85,623	139,536	-		(31,943)	(31,943)
Total Business-type activities:	<u>257,102</u>	<u>85,623</u>	<u>139,536</u>	<u>-</u>		<u>(31,943)</u>	<u>(31,943)</u>
Total School District	<u>\$ 6,132,692</u>	<u>\$ 157,663</u>	<u>\$ 1,469,923</u>	<u>\$ 5,713,590</u>	<u>1,240,427</u>	<u>(31,943)</u>	<u>1,208,484</u>
General revenues:							
Taxes:							
Property taxes					1,793,624	-	1,793,624
Gross receipts tax					119,518	-	119,518
Revenue from state sources:							
State aid					1,630,264	-	1,630,264
Other					28,497	-	28,497
Revenue from federal sources					960,023	-	960,023
Earnings on investments					25,072	-	25,072
Miscellaneous					229,527	-	229,527
Transfers					(15,000)	15,000	-
Total general revenues					<u>4,771,525</u>	<u>15,000</u>	<u>4,786,525</u>
Change in net position					6,011,952	(16,943)	5,995,009
Net position - beginning					<u>7,204,692</u>	<u>28,152</u>	<u>7,232,844</u>
Net position - ending					<u>\$ 13,216,644</u>	<u>\$ 11,209</u>	<u>\$ 13,227,853</u>

The accompanying notes are an integral part of these financial statements.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2023

	Major Funds			Total Governmental Funds
	General	Capital Outlay	Special Education	
ASSETS				
Cash and cash equivalents	\$ 3,036,662	\$ (681,515)	\$ 197,881	\$ 2,553,028
Accounts receivable, net of allowance	7,294	-	-	7,294
Taxes receivable	362,654	415,047	96,843	874,544
Due from other governments	400,451	1,857,852	36,908	2,295,211
Pledges receivable	-	58,417	-	58,417
Total assets	<u>\$ 3,807,061</u>	<u>\$ 1,649,801</u>	<u>\$ 331,632</u>	<u>\$ 5,788,494</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 34,317	\$ -	\$ 4,592	\$ 38,909
Contracts payable	304,179	-	40,875	345,054
Accrued expenses	94,167	-	12,393	106,560
Total liabilities	<u>432,663</u>	<u>-</u>	<u>57,860</u>	<u>490,523</u>
Deferred Inflows of Resources:				
Unavailable revenue - property taxes	19,184	14,931	8,325	42,440
Taxes levied for future period	371,681	432,281	95,634	899,596
Deferred inflows - pledges receivable	-	58,417	-	58,417
Total deferred inflows of resources	<u>390,865</u>	<u>505,629</u>	<u>103,959</u>	<u>1,000,453</u>
Fund balances:				
Restricted:				
Capital outlay	-	1,144,172	-	1,144,172
Special education	-	-	169,813	169,813
Unassigned	2,983,533	-	-	2,983,533
Total fund balances	<u>2,983,533</u>	<u>1,144,172</u>	<u>169,813</u>	<u>4,297,518</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,807,061</u>	<u>\$ 1,649,801</u>	<u>\$ 331,632</u>	<u>\$ 5,788,494</u>

The accompanying notes are an integral part of these financial statements.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2023

Total fund balances for governmental funds \$ 4,297,518

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 284,994	
Construction in progress	5,667,025	
Buildings, net of \$2,834,312 accumulated depreciation	5,622,347	
Improvements, net of \$255,441 accumulated depreciation	242,174	
Equipment, net of \$1,066,619 accumulated depreciation	390,531	
Intangible lease assets, net of \$63,356 accumulated depreciation	<u>95,034</u>	
Total capital assets		12,302,105

Some of the School District's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows of resources in the funds. 42,440

Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds. 11,567

Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds. 1,137,040

Long-term liabilities applicable to the School District's governmental activities are not due and payable in current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position. Those liabilities consist of:

Capital outlay certificates	3,705,000	
Leases payable	98,801	
Compensated absences	<u>89,846</u>	
Total long-term liabilities		(3,893,647)

Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds. (680,379)

Total net position of governmental activities \$ 13,216,644

The accompanying notes are an
integral part of these financial statements.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2023

	Major Funds			Total Governmental Funds
	General	Capital Outlay	Special Education	
REVENUES				
Local sources:				
Taxes	\$ 863,510	\$ 793,323	\$ 239,902	\$ 1,896,735
Earnings on investments	22,373	1,528	1,171	25,072
Cocurricular activities	69,643	-	-	69,643
Other local revenue	56,249	82,931	226	139,406
Intergovernmental:				
County sources	59,843	-	-	59,843
State sources	1,662,651	49,325	-	1,711,976
Federal sources	2,124,172	5,581,883	162,348	7,868,403
Total revenues	4,858,441	6,508,990	403,647	11,771,078
EXPENDITURES				
Instruction:				
Regular programs	1,886,433	65,677	-	1,952,110
Special programs	838,116	-	406,771	1,244,887
Support services:				
Pupils	4,097	-	152,499	156,596
Instructional staff	183,974	2,053	-	186,027
General administration	203,046	-	-	203,046
School administration	312,327	-	-	312,327
Business	1,074,540	27,449	-	1,101,989
Central	459	-	-	459
Special education	-	-	43,859	43,859
Nonprogrammed charges:				
Early retirement payments	34,947	-	-	34,947
Cocurricular activities:				
Male activities	29,578	4,644	-	34,222
Female activities	30,291	5,667	-	35,958
Transportation	10,194	-	-	10,194
Combined activities	89,155	-	-	89,155
Debt service:				
Principal	-	205,389	-	205,389
Interest	-	118,306	-	118,306
Debt issuance costs	-	23,000	-	23,000
Capital outlay	-	5,700,074	-	5,700,074
Total expenditures	4,697,157	6,152,259	603,129	11,452,545
 Excess (deficiency) of revenues over expenditures	 161,284	 356,731	 (199,482)	 318,533
OTHER FINANCING SOURCES (USES)				
Transfers in	341,485	-	-	341,485
Transfers out	(15,000)	(341,485)	-	(356,485)
Proceeds from the issuance of debt	-	425,000	-	425,000
Sale of surplus property	-	675	-	675
Compensation for damage to assets	-	114,382	-	114,382
Total other financing sources (uses)	326,485.00	198,572	-	525,057
 Net change in fund balances	 487,769	 555,303	 (199,482)	 843,590
Fund balances - beginning	2,495,764	588,869	369,295	3,453,928
 Fund balances - ending	 \$ 2,983,533	 \$ 1,144,172	 \$ 169,813	 \$ 4,297,518

The accompanying notes are an
integral part of these financial statements.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

RECONCILIATION OF STATEMENT OF THE REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023

Net change in fund balances - total governmental funds \$ 843,590

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$5,700,074) exceeded depreciation expense (\$395,609) in the current period. 5,304,465

In both the government wide and fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the fund's statement differs from the accounting in the government wide statements in that the fund financial statements require the amounts to be "available". This amount reflects the application of both the application period and "availability criteria". 16,407

Expenses in the statement of activities that do not use current financial resources are not reported as expenses in the funds. This adjustment is the reduction in pension expense related to the South Dakota Retirement System (SDRS) pension plan. In addition, changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds. 58,431

Issuance of principal on long-term liabilities is an other financing source in the governmental funds, but the issuance increase long-term liabilities in the statement of net position.

Issuance:
Capital outlay certificates (425,000)

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

Repayments:
Capital outlay certificates \$ 175,000
Leases payable 30,389 205,389

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment is the net change the following:

Compensated absences 8,670
Total 8,670

Change in net position of governmental activities \$ 6,011,952

The accompanying notes are an integral part of these financial statements.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2023

	<u>Enterprise Fund</u>	
	<u>Major Fund</u>	
	<u>Food Service</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$	8,170
Due from other governments		8,729
Inventories:		
Supplies		232
Stores purchased for resale		1,260
Donated food		1,960
Total current assets		<u>20,351</u>
Noncurrent assets:		
Net pension asset		200
Capital assets:		
Machinery and equipment		87,482
Less accumulated depreciation		<u>(80,262)</u>
Total noncurrent assets		<u>7,420</u>
Total assets		<u>27,771</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows		<u>19,664</u>
LIABILITIES		
Current liabilities:		
Accounts payable		133
Contracts payable		2,355
Accrued expenses		1,883
Revenue received in advance		20,089
Total current liabilities		<u>24,460</u>
Total liabilities		<u>24,460</u>
DEFERRED INFLOWS OF RESOURCES		
Pension related deferred inflows		<u>11,766</u>
NET POSITION		
Investment in capital assets		7,220
Restricted for SDRS pension purposes		8,098
Unrestricted		<u>(4,109)</u>
Total net position	\$	<u>11,209</u>

The accompanying notes are an integral part of these financial statements.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2023

	Enterprise Fund
	Major Fund
	Food Service
OPERATING REVENUES	
Charges for goods and services	\$ 85,580
Other operating revenue	43
Total operating revenues	85,623
OPERATING EXPENSES	
Salaries and employee benefits	115,154
Purchased services	11,688
Cost of materials	5,685
Cost of sales - purchased food	100,980
Cost of sales - donated food	21,771
Depreciation	1,824
Total operating expenses	257,102
Operating income (loss)	(171,479)
NONOPERATING REVENUES (EXPENSES)	
Local donations	42
State sources:	
Cash reimbursements	377
Federal sources:	
Cash reimbursements	118,364
Donated food	20,753
Total nonoperating revenues (expenses)	139,536
(Loss) before transfers	(31,943)
Transfers:	
Transfers in	15,000
Change in net position	(16,943)
Total net position - beginning	28,152
Total net position - ending	\$ 11,209

The accompanying notes are an
integral part of these financial statements.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2023

	<u>Enterprise Fund</u>
	<u>Major Fund</u>
	<u>Food Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 85,623
Payments to suppliers	(120,929)
Payments to employees	(115,983)
Net cash provided by (used in) operating activities	<u>(151,289)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash reimbursements - state sources	377
Cash reimbursements - federal sources	136,766
Operating transfer in	15,000
Local donations	<u>42</u>
Net cash provided by (used in) noncapital financing activities	<u>152,185</u>
Net change in cash and cash equivalents	896
Balances - beginning of year	<u>7,274</u>
Balances - end of year	<u>\$ 8,170</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating (loss)	\$ (171,479)
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities:	
Depreciation	1,824
Value of donated commodities used	21,771
Change in assets and liabilities:	
(Increase) decrease in:	
Inventories	192
Pension related asset	(1,011)
Increase (decrease) in:	
Accounts payable	(2,768)
Contracts payable	<u>182</u>
Net cash provided by (used in) operating activities	<u>\$ (151,289)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Value of commodities received	<u>\$ 20,753</u>

The accompanying notes are an integral part of these financial statements.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 JUNE 30, 2023

	<u>Custodial Funds</u>	<u>Private Purpose Trust Funds</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 69,041	\$ 1,619	\$ 70,660
Investments	-	29,672	29,672
Total assets	<u>69,041</u>	<u>31,291</u>	<u>100,332</u>
LIABILITIES			
Accounts payable	<u>1,336</u>	-	<u>1,336</u>
Total liabilities	<u>1,336</u>	-	<u>1,336</u>
NET POSITION			
Restricted	<u>\$ 67,705</u>	<u>\$ 31,291</u>	<u>\$ 98,996</u>

The accompanying notes are an integral part of these financial statements.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2023

	<u>Custodial Funds</u>	<u>Private Purpose Trust Funds</u>	<u>Total</u>
ADDITIONS:			
Investment earnings	\$ -	\$ 3,757	\$ 3,757
Collections for student activities	<u>110,759</u>	<u>-</u>	<u>110,759</u>
Scholarships	<u>110,759</u>	<u>3,757</u>	<u>114,516</u>
DEDUCTIONS:			
Scholarships	-	1,000	1,000
Payment for student activities	<u>106,971</u>	<u>-</u>	<u>106,971</u>
Total deductions	<u>106,971</u>	<u>1,000</u>	<u>107,971</u>
Change in net position	3,788	2,757	6,545
Net position - beginning	<u>63,917</u>	<u>28,534</u>	<u>92,451</u>
Net position - ending	<u>\$ 67,705</u>	<u>\$ 31,291</u>	<u>\$ 98,996</u>

The accompanying notes are an
integral part of these financial statements.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The reporting entity of Kadoka Area School District No. 35-2 (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.

The School District participates in a cooperative service unit with several other school districts. See detailed note entitled "Joint Venture" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the 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

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

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

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

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

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

The fund types of the School District financial reporting entity are described below:

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

Governmental Funds:

General Fund – A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major Fund.

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

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

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

Proprietary Funds:

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

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

Proprietary Funds, continued:

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

Fiduciary Funds:

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

Private-Purpose Trust Funds – Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The School District maintains a scholarship fund. The purpose of this fund is to provide scholarships to qualifying students.

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

Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus and Basis of Accounting, continued

Measurement Focus, continued:

Fund Financial Statements:

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

Basis of Accounting:

Government-wide Financial Statements:

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

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the School District, the length of that cycle is 60 days. The revenues accrued at June 30, 2023 are property taxes and federal grants.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred inflows of resources are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus and Basis of Accounting, continued

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

Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts (if any) reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances in the Statement of Net Position. In addition, in order to minimize the grossing-up effect on general revenues within the governmental and business-type activities columns of the primary government, amounts (if any) reported as interfund transfers have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Transfers in the Statement of Activities.

Cash and Cash Equivalents

The School District pools its cash resources for depositing and investing purposes. Accordingly, the enterprise funds have access to their cash resources on demand. Accordingly, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows. Certificates of deposit, regardless of maturity, are not considered to be cash equivalents.

Capital Assets

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

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets, continued

Government-wide Financial Statements:

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

For governmental and business-type activities capital assets, construction-period interest is not capitalized, in accordance with US GAAP.

The total June 30, 2023 balance of capital assets for governmental activities includes approximately 20 percent for which the values were determined by estimates of the original costs. The total June 30, 2023 balance of capital assets for business-type activities includes approximately 5 percent for which the values were determined by estimates of the original cost. These estimated original costs were established by deflated current replacement cost.

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

	Capitalization Thresholds	Depreciation/ Amortization Method	Estimated Useful Life
Land	All	-	-
Buidlings	\$ 50,000	Straight-Line	10-50 years
Improvements other than buildings	\$ 10,000	Straight-Line	10-50 years
Machinery and equioment	\$ 5,000	Straight-Line	5-30 years
Intangible lease assets	\$ 10,000	Straight-Line	3-30 years

Land, an inexhaustible capital asset, is not depreciated.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets, continued

Fund Financial Statements

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

Long-Term Liabilities

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

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

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

Long-Term Liabilities – Leases Payable

The School District is a lessee for a cancellable lease of an auditorium/gymnasium. The School District recognizes a lease liability and an intangible right-to-use lease asset (intangible lease asset) in the government-wide financial statements. The School District recognizes lease liabilities with an initial, individual value of \$10,000.

At the commencement of a lease, the School District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the intangible lease asset is amortized on a straight-line basis over its useful life.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Long-Term Liabilities – Leases Payable, continued

Key estimates and judgments related to leases include how the School District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The School District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the School District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the School District is reasonably certain to exercise.

The School District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Intangible lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Deferred Inflows and Outflows of Resources

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

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period. Deferred inflows of resources consist primarily of property taxes, pension activity and pledges receivable.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Pension

For purposes of measuring the net pension (asset)/liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension 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 (asset)/liability are recognized on an accrual basis of accounting.

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.

Revenue Recognition for Contributions

Contributions are recognized as revenue when all eligibility requirements, including time requirements, have been met. Contributions received before all eligibility have been met are reported as pledges receivable and deferred inflows of resources.

Proprietary Funds Revenue and Expense Classifications

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Equity Classifications

Government-wide Financial Statements:

Equity is classified as Net Position and is displayed in three components

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

Fund Financial Statements:

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

Application of Net Position

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Balance Classification Policies and Procedures

In accordance with Government Accounting Standards Board (GASB), the School District classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Business Manager.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The School District uses *restricted* 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.

2. DEPOSITS AND INVESTMENTS

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023

2. DEPOSITS AND INVESTMENTS, continued

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

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

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial risk. As of June 30, 2023, the School District's deposits were fully insured or collateralized.

Investments - As of June 30, 2023, the School District had no investments.

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.

Authorized Investments by the School District – The School District does not have a formal investment policy that further limits investments beyond those imposed by statutes.

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.

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023

2. DEPOSITS AND INVESTMENTS, continued

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from investments to the fund making the investment.

3. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year. Allowance for uncollectible accounts receivable, if any, are calculated based on historical trend data. For the year ended June 30, 2023, the allowance for doubtful accounts totaled \$ -0-.

4. INVENTORIES

Inventories are stated at the lower of cost (first-in first-out) or market. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

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

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

5. PROPERTY TAXES

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

5. PROPERTY TAXES, continued

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

6. PLEDGES RECEIVABLE

In conjunction with the construction of a new gymnasium and multi-use facility, the School District conducted a capital campaign to assist in funding the project. Pledges receivable still outstanding as of June 30, 2023, is as follows:

Receivable in less than 1 year	\$	27,940
Receivable in 1 to 5 years		35,870
		63,810
Less: Allowance		(1,914)
Less: Discount		(3,479)
		\$ 58,417

7. CHANGES IN CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
<i>Capital assets not being depreciated/amortized:</i>				
Land	\$ 194,994	\$ 90,000.00	\$ -	\$ 284,994
Construction in progress	286,000	5,381,025	-	5,667,025
Capital assets not being depreciated/amortized	480,994	5,471,025	-	5,952,019

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

7. CHANGES IN CAPITAL ASSETS, continued

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets being depreciated/amortized:</i>				
Buildings	8,456,659	-	-	8,456,659
Improvements	474,109	23,506	-	497,615
Equipment	1,354,757	205,543	(103,150)	1,457,150
Intangible lease assets	158,390	-	-	158,390
Total capital assets being depreciated	<u>10,443,915</u>	<u>229,049</u>	<u>(103,150)</u>	<u>10,569,814</u>
Less accumulated depreciation/amortization for:				
Buildings	2,639,128	195,184	-	2,834,312
Improvements	236,155	19,286	-	255,441
Equipment	1,020,308	149,461	(103,150)	1,066,619
Intangible lease assets	31,678	31,678	-	63,356
Total accumulated depreciation	<u>3,927,269</u>	<u>395,609</u>	<u>(103,150)</u>	<u>4,219,728</u>
Total capital assets being depreciated/amortized	<u>6,516,646</u>	<u>(166,560)</u>	<u>-</u>	<u>6,350,086</u>
<i>Capital assets, net - Governmental Activities</i>	<u>\$ 6,997,640</u>	<u>\$ 5,304,465</u>	<u>\$ -</u>	<u>\$ 12,302,105</u>

Governmental activities' depreciation/amortization expense was charged to functions as follows:

Instruction	\$ 118,683
Support Services	118,683
Cocurricular Activities	<u>158,243</u>

Total Depreciation Expense - Governmental Activities \$ 395,609

A summary of changes in business-type activities' capital assets for the year ended June 30, 2023 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-Type Activities:</i>				
<i>Capital assets being depreciated:</i>				
Equipment	\$ 87,482	\$ -	\$ -	\$ 87,482
Total capital assets being depreciated	87,482	-	-	87,482
Less accumulated depreciation for:				
Equipment	78,438	1,824	-	80,262
Total accumulated depreciation	<u>78,438</u>	<u>1,824</u>	<u>-</u>	<u>80,262</u>
<i>Capital assets, net - Business-Type Activities</i>	<u>\$ 9,044</u>	<u>\$ (1,824)</u>	<u>\$ -</u>	<u>\$ 7,220</u>

Business-type activities' depreciation expense was charged to functions as follows:

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

7. CHANGES IN CAPITAL ASSETS, continued

Food Service Fund \$ 1,824

8. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
Capital outlay certificates	\$ 3,455,000	\$ 425,000	\$ (175,000)	\$ 3,705,000	\$ 200,000
Leases payable	129,190	-	(30,389)	98,801	31,628
Compensated absences	98,516	9,095	(17,765)	89,846	26,954
<i>Total Governmental Activities</i>	<u>3,682,706</u>	<u>434,095</u>	<u>(223,154)</u>	<u>3,893,647</u>	<u>258,582</u>
<i>Total Government</i>	<u>\$ 3,682,706</u>	<u>\$ 434,095</u>	<u>\$ (223,154)</u>	<u>\$ 3,893,647</u>	<u>\$ 258,582</u>

The capital outlay certificates were issued as :

Limited Tax General Obligation Certificates, Series 2017, maturing in August 2037. Interest rates range from 1.00% to 3.25% depending on length to maturity. Payments will be made from the Capital Outlay Fund.

Limited Tax General Obligation Certificates, Series 2022, maturing in December 2037, with an Interest rate 4.00%. Payments will be made from the Capital Outlay Fund.

The lease payable represents the School District's liability for the lease of an auditorium/gymnasium from the City of Kadoka. The lease requires monthly payments of \$2,917. A discount rate of 4% is applied to a 5 year maturity of the lease. Payments are made from the Capital Outlay Fund.

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

8. LONG-TERM LIABILITIES, continued

The annual requirements to amortize long-term liabilities outstanding as of June 30, 2023, except for compensated absences are as follows:

Year Ending June 30,	Capital Outlay Certificates		
	Principal	Interest	Total
2024	\$ 200,000	\$ 110,880	\$ 310,880
2025	205,000	104,605	309,605
2026	215,000	98,080	313,080
2027	220,000	92,134	312,134
2028	225,000	86,888	311,888
2029 - 2033	1,220,000	328,587	1,548,587
2034 - 2038	1,420,000	120,369	1,540,369
Total	\$ 3,705,000	\$ 941,543	\$ 4,646,543

Year Ending June 30,	Leases Payable		
	Principal	Interest	Total
2024	\$ 31,628	\$ 3,376	\$ 35,004
2025	32,916	2,088	35,004
2026	34,257	747	35,004
Total	\$ 98,801	\$ 6,211	\$ 105,012

9. RENTAL AGREEMENT

The School District entered into a rental agreement with a local business to rent a building located at 200 12th Avenue, Kadoka, South Dakota. The School District has the option during the term of the rental agreement or renewal thereof, to purchase the property including the entire building located on the property and the real estate there under, for the sum of \$112,000. The rental agreement expired on May 31, 2011, and the School District is operating under the old contract, on a year to year basis, until a new rental agreement is negotiated. However, the School District may not exercise its option until and unless the lessor's other buildings on the property have been sold. Rent expense for the rental agreement was \$7,200 for the year ended June 30, 2023.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

10. RESTRICTED NET POSITION

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

Purpose	Restricted	
	By	Amount
Capital Outlay Fund	Law	\$ 1,144,172
Special Education Fund	Law	169,813
SDRS Pension Related Assets	Law	476,326
Total Restricted Net Position		<u>\$ 1,790,311</u>

11. PENSION PLAN

Plan Information

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

Benefits Provided

SDRS has four classes of members: Class A general members, Class B public safety and judicial members, Class C Cement Plant Retirement Fund members, and Class D Department of Labor and Regulation members.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

11. PENSION PLAN, continued

Benefits Provided, continued

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

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 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.

The 2017 legislation established the current COLA process. At each valuation date:

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

11. PENSION PLAN, continued

Benefits Provided, continued

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

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, 2023, 2022, and 2021 were \$183,815, \$178,391, and \$162,565, respectively, equal to the required contributions each year.

Pension (Asset)/Liability, Pension Revenue, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

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

Proportionate share of pension liability	\$ 17,577,026
Less proportionate share of net position restricted for pension benefits	<u>17,588,793</u>
Proportionate share of net pension (asset)/liability	<u>\$ (11,767)</u>

At June 30, 2023, the School District reported a liability (asset) of \$(11,767) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2022 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the School District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2022, the School District's proportion was 0.12451300%, which is an increase of 0.0011097% from its proportion measured at June 30, 2021.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

11. PENSION PLAN, continued

Pension (Asset)/Liability, Pension Revenue, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions, continued

For the year ended June 30, 2023, the School District recognized pension expense (reduction of pension expense) of (\$59,442). At June 30, 2023, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 223,999	\$ 764
Changes in assumptions	747,891	655,426
Net difference between projected and actual earnings on pension plan investments	-	28,200
Changes in proportion and difference between the School District's contributions and proportionate share of contributions	999	7,755
School District contributions subsequent to the measurement date	183,815	-
Total	\$ 1,156,704	\$ 692,145

\$183,815 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, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended June 30		
2024	\$	75,961
2025		161,182
2026		(188,648)
2027		232,249
Total	\$	280,744

KADOKA AREA SCHOOL DISTRICT NO. 35-2

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

11. PENSION PLAN, continued

Actuarial Assumptions

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

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

Mortality Rates:

- All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020
- Active and Terminated Vested Members:
 - Teachers, Certified Regents, and Judicial: PubT-2010
 - Other Class A Members: PubG-2010
 - Public Safety Members: PubS-2010
- Retired Members:
 - Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65
 - Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above
 - Public Safety Retirees: PubS-2010, 102% of rates at all ages
- Beneficiaries:
 - PubG-2010 contingent survivor mortality table
- Disabled Members:
 - Public Safety: PubS-2010 disabled member mortality table
 - Others: PubG-2010 disabled member mortality table

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

11. PENSION PLAN, continued

Actuarial Assumptions, continued

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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	3.7%
Fixed Income	30.0%	1.1%
Real Estate	10.0%	2.6%
Cash	<u>2.0%</u>	0.4%
Total	<u>100%</u>	<u>2.7%</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).

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

11. PENSION PLAN, continued

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

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

	1% Decrease	Current Discount Rate	1% Increase
School District's proportionate share of the net pension liability (asset)	\$ 2,443,363	\$ (11,767)	\$ (2,018,258)

Pension Plan Fiduciary Net Position

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

12. INTERFUND TRANSFERS

During the normal course of operations, the School District transfers monies between funds for operational purposes. During the year ended June 30, 2023, interfund transfers were as follows:

	Transfers From	Transfers To
<i>Governmental activities:</i>		
General Fund:		
Capital Outlay Fund	\$ 341,485	\$ -
Food Service Fund	-	15,000
	341,485	15,000
Capital Outlay Fund:		
General Fund	-	341,485
<i>Total governmental activities</i>	341,485	356,485

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

12. INTERFUND TRANSFERS, continued

	Transfers From	Transfers To
<i>Business-type activities activities:</i>		
Food Service Fund:		
General Fund	15,000	-
<i>Business-type activities:</i>		
<i>Total business-type activities</i>	15,000	-
<i>Total government</i>	\$ 356,485	\$ 356,485

Activity includes transfers from the Capital Outlay Fund to the General Fund, and from the General Fund to the Food Service Fund to conduct the indispensable functions of the School District. These interfund transfers are not violations of the statutory restrictions on interfund transfers.

13. JOINT VENTURE

The School District participates in the joint venture known as Three Rivers Special Services Cooperative (the co-op), a cooperative service unit formed for the purpose of providing special educational services to the member school districts. The members of the co-op and their relative percentage participation in the co-op are as follows:

Jones County School District No. 37-3	11%
Kadoka Area School District No. 35 -2	18%
Lyman School District No. 42-1	20%
White River School District No. 47-1	22%
Bennett County School District No. 3-1	29%

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

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

Separate financial statements for this joint venture are available from Three Rivers Cooperative.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023

13. JOINT VENTURE, continued

At June 30, 2023, this joint venture had total assets and deferred outflows of \$1,035,508, total liabilities and deferred inflows of \$202,533, and net position of \$832,975.

14. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2023, the School District managed its risks as follows:

Employee Health Insurance

The School District joined the South Dakota School District Health Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The School District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage provides a deductible of \$250 per person up to \$500 per family. The plan also provides for coinsurance of 50 percent up to \$1,000 for individual and \$2,000 for family. The coverage also includes a \$2,000,000 lifetime maximum payment per person.

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

Liability Insurance

The School District joined the Associated School Boards of South Dakota Property and 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 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 the pool to provide coverage for property and boiler and machinery, general liability, automobile, crime, employee benefits and school board errors and omissions.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

14. RISK MANAGEMENT, continued

Liability Insurance, continued

The agreement with the ASBSD-PLF provides that the above coverage's will be provided to a \$250,000,000 limit for property, a \$2,000,000 aggregate limit for general liability, and a \$2,000,000 limit for vehicle liability. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$100,000 to the upper limit.

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.

Worker's Compensation

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

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

14. RISK MANAGEMENT, continued

Unemployment Benefits

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

During the year ended June 30, 2023, there were no claims paid for unemployment benefits, nor had any claims been filed or were outstanding. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

KADOKA AREA SCHOOL DISTRICT NO. 35-2

BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND - PAGE 1 OF 2
 YEAR ENDED JUNE 30, 2023

	Budgeted Amounts		Actual	Variance With
	Original	Final	(Budgetary - Modified Accrual Basis)	Final Budget Positive (Negative)
REVENUES				
Revenues from local sources:				
Taxes:				
Ad valorem taxes	\$ 744,106	\$ 744,106	\$ 733,504	\$ (10,602)
Prior years ad valorem taxes	6,000	6,000	7,210	1,210
Tax deed revenue	100	100	-	(100)
Gross receipts tax	170,000	170,000	119,517	(50,483)
Penalties and interest	4,000	4,000	3,279	(721)
Earning on investments and deposits	1,000	1,000	294	(706)
Cocurricular activities:				
Admissions	16,000	16,000	15,943	(57)
Other student activity income	50,100	50,100	53,700	3,600
Other revenue from local sources:				
Rentals	20,000	20,000	29,295	9,295
Charges for services	5,000	5,000	2,191	(2,809)
Other	15,000	15,000	24,763	9,763
Revenues from intermediate sources:				
County sources:				
County apportionment	40,000	40,000	59,843	19,843
Revenues from state sources:				
Grants-in-aid:				
Unrestricted	1,687,072	1,687,072	1,662,651	(24,421)
Revenues from federal sources:				
Grants-in-aid:				
Unrestricted	17,550	17,550	21,293	3,743
Restricted	1,570,724	1,570,724	1,492,871	(77,853)
Total revenues	<u>4,346,652</u>	<u>4,346,652</u>	<u>4,226,354</u>	<u>(120,298)</u>
EXPENDITURES				
Instruction:				
Regular programs:				
Elementary	1,194,018	1,194,018	1,127,305	66,713
Middle school	230,653	230,653	227,261	3,392
High school	578,940	578,940	510,254	68,686
Preschool	23,576	23,576	21,613	1,963
Special programs:				
Educationally deprived	880,546	840,996	838,116	2,880

See Independent Auditor's Report

KADOKA AREA SCHOOL DISTRICT NO. 35-2

BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND - PAGE 2 OF 2
 YEAR ENDED JUNE 30, 2023

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary - Modified Accrual Basis)</u>	<u>Final Budget Positive (Negative)</u>
Support services:				
Students:				
Guidance	9,155	9,155	575	8,580
Health	3,500	3,500	3,522	(22)
Instructional staff:				
Improvement of education	-	9,500	9,249	251
Educational media	230,556	231,606	174,725	56,881
General administration:				
Board of education	90,946	90,946	80,905	10,041
Executive administration	128,779	128,779	122,141	6,638
School administration:				
Office of principal	200,078	200,078	178,031	22,047
Title I Program Administration	78,598	134,598	134,134	464
Other	500	500	162	338
Business:				
Fiscal services	162,250	162,250	145,481	16,769
Operations and maintenance of plant	921,827	921,827	740,946	180,881
Pupil transportation	239,071	240,371	175,221	65,150
Food services	10,136	12,836	12,892	(56)
Central:				
Staff	2,500	2,500	459	2,041
Other	19,215	19,215	-	19,215
Nonprogrammed charges:				
Payments to State - Unemployment	2,000	2,000	-	2,000
Early retirement	66,000	35,000	34,947	53
Cocurricular activities:				
Male activities	34,649	34,649	29,578	5,071
Female activities	29,597	29,597	30,291	(694)
Transportation	11,684	11,684	10,194	1,490
Combined activities	118,696	118,696	89,155	29,541
Total expenditures	<u>5,267,470</u>	<u>5,267,470</u>	<u>4,697,157</u>	<u>570,313</u>
Excess (deficiency) of revenues over expenditures	<u>(920,818)</u>	<u>(920,818)</u>	<u>(470,803)</u>	<u>450,015</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>920,818</u>	<u>920,818</u>	<u>882,714</u>	<u>(38,104)</u>
Total other financing sources (uses)	<u>920,818</u>	<u>920,818</u>	<u>882,714</u>	<u>(38,104)</u>
Net change in fund balances	-	-	411,911	411,911
Fund balances - beginning	<u>(96,366)</u>	<u>(96,366)</u>	<u>(96,366)</u>	-
Fund balances - ending	<u>\$ (96,366)</u>	<u>\$ (96,366)</u>	<u>\$ 315,545</u>	<u>\$ 411,911</u>

See Independent Auditor's Report

KADOKA AREA SCHOOL DISTRICT NO. 35-2

BUDGETARY COMPARISON SCHEDULE
CAPITAL OUTLAY FUND
YEAR ENDED JUNE 30, 2023

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary - Modified Accrual Basis)</u>	<u>Final Budget Positive (Negative)</u>
REVENUES				
Revenues from local sources:				
Taxes:				
Ad valorem taxes	\$ 843,000	\$ 843,000	\$ 787,508	(55,492)
Prior years ad valorem taxes	3,000	3,000	3,315	315
Penalties and interest	1,500	1,500	2,500	1,000
Earning on investments and deposits	1,000	1,000	1,528	528
Other revenue from local sources:				
Contributions and donations	20,000	82,300	82,381	81
Other	-	-	550	550
Revenues from state sources:				
Other	-	-	49,325	49,325
Revenues from federal sources:				
Restricted grants-in-aid	6,145,000	6,145,000	5,581,883	(563,117)
Total revenues	<u>7,013,500</u>	<u>7,075,800</u>	<u>6,508,990</u>	<u>(566,810)</u>
EXPENDITURES				
Instruction:				
Regular programs:				
Elementary	82,566	82,566	8,076	74,490
Middle school	-	4,200	57,231	(53,031)
High school	-	370	370	-
Support services:				
Instructional staff:				
Educational media	10,680	11,180	9,296	1,884
Business:				
Fiscal services	7,160	7,160	6,650	510
Facilities acquisition and construction	6,000,000	6,155,000	5,471,025	683,975
Operations and maintenance of plant	85,000	85,001	48,603	36,398
Pupil transportation	152,500	205,500	205,500	-
Food services	9,500	-	-	-
Debt service:				
Principal and interest payments	275,505	289,505	288,691	814
Debt issuance costs	-	-	23,000	(23,000)
Cocurricular activities:				
Male activities	5,800	5,800	4,644	1,156
Female activities	5,200	5,700	5,667	33
Combined activities	-	24,000	23,506	494
Total expenditures	<u>6,633,911</u>	<u>6,875,982</u>	<u>6,152,259</u>	<u>723,723</u>
Excess (deficiency) of revenues over expenditures				
	379,589	199,818	356,731	156,913
OTHER FINANCING SOURCES (USES)				
Transfers out	(379,589)	(379,589)	(341,485)	38,104
Proceeds from the issuance of debt	-	402,000	425,000	23,000
Sale of capital assets	-	675	675	-
Compensation for damage to assets	-	114,381	114,382	1
Total other financing sources (uses)	<u>(379,589)</u>	<u>137,467</u>	<u>198,572</u>	<u>61,105</u>
Net change in fund balances				
	-	337,285	555,303	218,018
Fund balances - beginning				
	<u>588,869</u>	<u>588,869</u>	<u>588,869</u>	<u>-</u>
Fund balances - ending				
	<u>\$ 588,869</u>	<u>\$ 926,154</u>	<u>\$ 1,144,172</u>	<u>\$ 218,018</u>

See Independent Auditor's Report

KADOKA AREA SCHOOL DISTRICT NO. 35-2

BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION FUND
YEAR ENDED JUNE 30, 2023

	Budgeted Amounts		Actual	Variance With
	Original	Final	(Budgetary - Modified Accrual Basis)	Final Budget Positive (Negative)
REVENUES				
Revenues from local sources:				
Taxes:				
Ad valorem taxes	\$ 191,000	\$ 191,000	\$ 237,011	\$ 46,011
Prior years ad valorem taxes	1,000	1,000	1,796	796
Penalties and interest	1,000	1,000	1,095	95
Earning on investments and deposits	1,000	1,000	1,171	171
Other revenue from local sources:				
Charges for services	500	500	226	(274)
Revenues from federal sources:				
Grants-in-aid:				
Unrestricted	35,000	35,000	12,264	(22,736)
Restricted	150,084	150,084	150,084	-
Total revenues	<u>379,584</u>	<u>379,584</u>	<u>403,647</u>	<u>24,063</u>
EXPENDITURES				
Instruction:				
Special programs:				
Special education	419,302	429,887	406,771	23,116
Support services:				
Students:				
Health	600	300	-	300
Psychological services	65,000	37,700	32,460	5,240
Speech pathology	67,049	70,549	70,169	380
Audiology services	200	200	-	200
Student therapy	50,700	57,700	49,870	7,830
Special education:				
Administrative costs	34,295	34,295	29,770	4,525
Transportation costs	7,700	6,900	6,794	106
Other costs	100	7,415	7,295	120
Total expenditures	<u>644,946</u>	<u>644,946</u>	<u>603,129</u>	<u>41,817</u>
Excess (deficiency) of revenues over expenditures	<u>(265,362)</u>	<u>(265,362)</u>	<u>(199,482)</u>	<u>65,880</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>265,362</u>	<u>265,362</u>	-	<u>(265,362)</u>
Total other financing sources (uses)	<u>265,362</u>	<u>265,362</u>	-	<u>(265,362)</u>
Net change in fund balances	-	-	(199,482)	(199,482)
Fund balances - beginning	<u>369,295</u>	<u>369,295</u>	<u>369,295</u>	-
Fund balances - ending	<u>\$ 369,295</u>	<u>\$ 369,295</u>	<u>\$ 169,813</u>	<u>\$ (199,482)</u>

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETS JUNE 30, 2023

1. BASIS OF PRESENTATION

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

2. BUDGETS AND BUDGETARY ACCOUNTING

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

1. Prior to the first regular board meeting in May of each year, the School Board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the School Board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the School Board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 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.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETS - continued
JUNE 30, 2023

2. BUDGETS AND BUDGETARY ACCOUNTING, continued

- 8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when monies are available to increase legal spending authority.
- 9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board.
- 10. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
- 11. Budgets for the General Fund and each major special revenue fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- 12. The following reconciles the U.S. GAAP Basis fund balance on the budgetary basis fund balance for the General Fund as of June 30, 2023:

U.S. GAAP Basis fund balance	\$ 2,983,533
Less: portion comprised of unspent Impact Aid revenue	<u>(2,667,988)</u>
Budgetary basis fund balance	<u>\$ 315,545</u>

- 13. The following reconciles the U.S. GAAP Basis transfers in on the budgetary basis transfers in for the General Fund as of June 30, 2023:

U.S. GAAP Basis fund balance	\$ 341,485
Less: portion comprised of transfers in from Impact Aid	<u>541,229</u>
Budgetary basis fund balance	<u>\$ 882,714</u>

- 14. The following reconciles the U.S. GAAP Basis transfers out on the budgetary basis transfers out for the General Fund as of June 30, 2023:

U.S. GAAP Basis fund balance	\$ 15,000
Less: portion comprised of transfers out from Impact Aid	<u>(15,000)</u>
Budgetary basis fund balance	<u>\$ -</u>

KADOKA AREA SCHOOL DISTRICT NO. 35-2

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY (ASSET)
JUNE 30, 2023

South Dakota Retirement System

* Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
School District's proportion of the net pension liability (asset)	0.1392381%	0.1343573%	0.1328522%	0.1323526%	0.1253000%
School District's proportionate share of net pension liability (asset)	\$ (1,003,154)	\$ (569,848)	\$ 448,762	\$ (12,011)	\$ (2,922)
School District's covered-employee payroll	\$ 2,434,900	\$ 2,452,983	\$ 2,526,183	\$ 2,689,127	\$ 2,604,860
School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-41.20%	-23.23%	17.76%	-0.45%	-0.11%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107.30%	104.10%	96.89%	100.10%	100.02%
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	
School District's proportion of the net pension liability (asset)	0.1237879%	0.1234033%	0.1193930%	0.1245130%	
School District's proportionate share of net pension liability (asset)	\$ (13,118)	\$ (5,359)	\$ (914,346)	\$ (11,767)	
School District's covered-employee payroll	\$ 2,631,985	\$ 2,708,511	\$ 2,709,414	\$ 2,973,181	
School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-0.50%	-0.20%	-33.75%	-0.40%	
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.09%	100.04%	105.52%	100.10%	

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE SCHOOL DISTRICT'S PENSION CONTRIBUTIONS
 JUNE 30, 2023

South Dakota Retirement System
 * Last 10 Fiscal Years

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$ 146,094	\$ 147,179	\$ 151,571	\$ 161,348	\$ 156,292
Contributions in relation to the contractually required contribution	<u>146,094</u>	<u>147,179</u>	<u>151,571</u>	<u>161,348</u>	<u>156,292</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 2,434,900	\$ 2,452,983	\$ 2,526,183	\$ 2,689,127	\$ 2,604,860
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%	6.00%
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Contractually required contribution	\$ 157,919	\$ 162,500	\$ 162,565	\$ 178,391	\$ 183,815
Contributions in relation to the contractually required contribution	<u>157,919</u>	<u>162,500</u>	<u>162,565</u>	<u>178,391</u>	<u>183,815</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 2,631,985	\$ 2,708,511	\$ 2,709,414	\$ 2,973,181	\$ 3,063,580
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%	6.00%

See Independent Auditor's Report

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – RETIREMENT SCHEDULES JUNE 30, 2023

Changes from Prior Valuation

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

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

Benefit Provision Changes

During the 2022 Legislative Session no significant SDRS benefit changes were made and gaming enforcement agents became Class B Public Safety Members.

Actuarial Assumption Changes

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

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

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

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – RETIREMENT
SCHEDULES, continued
JUNE 30, 2023**

Actuarial Assumption Changes, continued

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

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

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

Actuarial Method Changes

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

SUPPLEMENTARY INFORMATION

KADOKA AREA SCHOOL DISTRICT NO. 35-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2023

<u>Federal Grantor/Pass-Through Grantor Program or Cluster Title</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Disbursements/ Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE			
Pass-Through the South Dakota Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program (Note 3)	10.553	2023G-CANS35002	\$ 16,820
National School Lunch Program (Note 3)	10.555	2023G-CANS35002	\$ 89,778
Cash Reimbursement		***	21,771
Donated Food			<u>111,549</u>
Special Milk Program for Children (Note 3)	10.556	2023G-CANS35002	391
Fresh Fruit and Vegetable Program	10.582	2023G-FFVP35002	12,838
Summer Food Service Program for Children (Note 3)	10.559	2023G-CANS35002	<u>11,375</u>
Total Child Nutrition Cluster			<u>152,973</u>
Pass-Through Jackson County:			
Bankhead-Jones Farm Tenant Act	10.901	***	<u>1,059</u>
Total U.S. Department of Agriculture			<u>154,032</u>
U.S. DEPARTMENT OF EDUCATION			
Direct Funding:			
Impact Aid - (Title VIII)	84.041		568,493
Indian Education - Grants to Local Educational Agencies	84.060		29,282
Pass-Through the South Dakota Department of Education:			
Title I Grants to Local Educational Agencies	84.010	2020G-CON35002	922,396
Special Education Cluster:			
Special Education - Grants to States (Note 3)	84.027	2022G-IDEA35002	139,892
Special Education - Preschool Grants (Note 3)	84.173	21KADOKAAREAB3	<u>10,192</u>
Total Special Education Cluster			<u>150,084</u>
School Support and Academic Enrichment Grants	84.424	***	113,780
Rural Education	84.358	***	6,729
Supporting Effective Instruction State Grants	84.367	***	110,955
Education Stabilization Fund:			
COVID 19 - Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425D	2021G-CARE35002	1,843,012
COVID 19 - American Rescue Plan - Elementary and Secondary School Emergency Relief (ARP ESSER)	84.425U	2021G-CARE35002	<u>4,035,762</u>
Total U.S. Department of Education			<u>7,780,493</u>
U.S. DEPARTMENT OF INTERIOR			
Pass-Through the South Dakota Department of Education:			
Distribution of Receipts to State and Local Governments	15.227	***	<u>20,234</u>
Total U.S. Department of Interior			<u>20,234</u>
Total Expenditures			<u>\$ 7,954,759</u>

*** - Pass-Through Entity Identifying Number not available.

See Independent Auditor's Report

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2023

Note 1: Basis of Presentation

This accompanying Schedule of Expenditures of Federal Awards includes the federal activity of the School District under programs of the federal government for the year ended June 30, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to, and does not present the financial position, changes in net position, or cash flows of the School District.

Note 2: Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

Note 3: Federal Reimbursement

Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received rather than federal expenditures.



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

To the School Board
Kadoka Area School District No. 35-2
Jackson County, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Kadoka Area School District No. 35-2 (the School District)** as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated March 27, 2024.

Report on 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2023-001 that we consider to be a significant deficiency.

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Report on Compliance and Other Matters

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

School District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
March 27, 2024



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

To the School Board
Kadoka Area School District No. 35-2
Jackson County, South Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited **Kadoka Area School District No. 35-2's (the School District's)** compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the School District's major federal programs for the year ended June 30, 2023. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

Basis for Opinion on Each Major Federal Program

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

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

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Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

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

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

Report on Internal Control over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record, and its distribution is not limited.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
March 27, 2024

KADOKA AREA SCHOOL DISTRICT NO. 35-2
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2023

SECTION II. FINDING - FINANCIAL STATEMENT AUDIT

Finding 2022-001 Preparation of Financial Statements

Condition:

We, as auditors, were requested to draft the audited financial statements and related footnote disclosures for the year ended June 30, 2022. The School District does not have a documented internal control system over financial reporting to provide for the preparation of the financial statements, including the accompanying footnote disclosures as required by U.S. generally accepted accounting principles (US GAAP) standards.

Recommendation:

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. We recommend the School District establish appropriate internal controls over financial reporting and the auditee person responsible for the preparation of financial statements and related footnote disclosures receive appropriate training in order that management can take responsibility for the preparation of its financial statements and related footnote disclosures.

Current Status:

This is a continuing

SECTION III. FINDING – MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no major federal awards programs audit findings reported.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2023**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified? X yes _____ none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified? _____ yes X none reported

Type of auditor's report issued on compliance for major programs Unmodified

Audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? _____ yes X no

Identification of major programs:

<u>Assistance Listing Number</u> 84.425	<u>Name of Federal Program or Cluster</u> Education Stabilization Fund
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Dollar Threshold used to distinguish between Type A and Type B Programs: \$750,000

Auditee qualified as low-risk auditee? X yes _____ no

KADOKA AREA SCHOOL DISTRICT NO. 35-2

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2023**

SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT

Finding 2023-001 – Preparation of Financial Statements (Repeat Finding)

Significant Deficiency

Condition:

We, as auditors, were requested to assist with drafting the financial statements and related note disclosures for the year ended June 30, 2023. Although information was provided, the auditors prepared and proposed various adjusting and reclassification entries, based on this information. This was needed to ensure that fund financial statements were adequately reconciled for conversion to government-wide financial statements and note disclosures included required elements.

Questioned Costs: None.

Criteria:

In accordance with U.S. generally accepted accounting principles (US GAAP), it is management's responsibility to provide for the preparation of the School District's financial statements and related footnote disclosures, which includes effective internal controls over the entire financial reporting process. It is the responsibility of the auditor to determine the fairness of the presentation of those statements.

Cause:

The School District's staff has not fully developed their knowledge of accounting standards to allow for the preparation of full disclosure financial statements as required by US GAAP.

Effect:

This condition may affect the School District's ability to recognize and report financial data that is timely, accurate, and consistent with the US GAAP requirements.

Recommendation:

We recommend the School District expand internal controls over financial reporting to include further emphasis on the overall financial statements and required note disclosures. The designated auditee staff should receive appropriate training. Management will then be able to take responsibility for the preparation of its financial statements and related footnote disclosures.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2023**

SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT, continued

Finding 2023-001 – Preparation of Financial Statements (Repeat Finding), continued

Views of Responsible Officials:

Management agrees with the finding. Please refer to the Corrective Action Plan for management's views and planned corrective action.

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

There are no major federal award program findings.



Kadoka Area School District #35-2
Home of the Kougars

Preparing students to reach their full potential

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Responses to Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

2023-001. Finding: Financial Statement Preparation

Response: The Superintendent is the contact person at this entity responsible for the corrective action plan for this finding, and there is no anticipated completion date. The School District is aware of the risk associated with requesting the auditors to assist in the preparation of the financial statements. Planned actions include management to annually review the draft financial statements and related notes prepared by the auditor and the review all recommended adjusting journal entries proposed by the auditor. Additional avenues will be explored to provide School District staff with additional training to further their knowledge of accounting standards.

Very truly yours,

KADOKA AREA SCHOOL DISTRICT NO. 35-2

Jo Beth Eisenbraun
Business Manager