



Financial Statements
June 30, 2022

Northwestern Area School District 56-7

Northwestern Area School District 56-7
School District Officials (Unaudited)
June 30, 2022

School Board Chairman..... Kevin Nash

School Board Vice-Chairman..... Mary Mielke

School Board Members.....Troy Grandpre
Doug Stahl
Heidi Boekelheide

Superintendent Ryan Bruns

Business Manager Jenna Brinkman

| | |
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Independent Auditor's Report

To the School Board
Northwestern Area School District 56-7
Mellette, South Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Northwestern Area School District 56-7 (the School District) as of and for the year ended June 30, 2022, 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 accompanying 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 the School District as of June 30, 2022, 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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.

Adoption of New Accounting Standard

As discussed in Note 1 to the financial statements, the School District has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended June 30, 2022. No restatement was needed to the net position as of July 1, 2021, as a result of implementation of the standard. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about 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 GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedules, notes to the budgetary comparison schedules, schedule of School District's share of net pension liability (asset), schedule of pension contributions, and notes to the pension schedules 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.

Management 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 Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by the missing information.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the listing of School District officials, but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2022, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Aberdeen, South Dakota
December 27, 2022

Northwestern Area School District 56-7
Statement of Net Position
June 30, 2022

| | Primary Government | | |
|--|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Assets | | | |
| Cash and cash equivalents | \$ 4,587,764 | \$ 91,275 | \$ 4,679,039 |
| Investments | 7,420,237 | - | 7,420,237 |
| Taxes receivable | 951,863 | - | 951,863 |
| Accounts receivable | 202,853 | - | 202,853 |
| Inventories | - | 8,119 | 8,119 |
| Net pension asset | 548,891 | 24,377 | 573,268 |
| Capital and right-to-use lease assets: | | | |
| Land | 765 | - | 765 |
| Construction in progress | 438,349 | - | 438,349 |
| Other capital and right-to-use lease assets, net of depreciation/amortization | 2,648,099 | 22,204 | 2,670,303 |
| | <u>16,798,821</u> | <u>145,975</u> | <u>16,944,796</u> |
| Deferred Outflows of Resources | | | |
| Pension related deferred outflows | 752,635 | 33,425 | 786,060 |
| | <u>\$ 17,551,456</u> | <u>\$ 179,400</u> | <u>\$ 17,730,856</u> |
| Liabilities | | | |
| Accounts payable | \$ 48,361 | \$ - | \$ 48,361 |
| Other current liabilities | 310,390 | 21,021 | 331,411 |
| Noncurrent liabilities: | | | |
| Due within one year | 10,386 | - | 10,386 |
| Due in more than one year | 8,038,637 | - | 8,038,637 |
| | <u>8,407,774</u> | <u>21,021</u> | <u>8,428,795</u> |
| Deferred Inflows of Resources | | | |
| Pension related deferred inflows | 1,060,420 | 47,094 | 1,107,514 |
| Taxes levied for future period | 1,227,433 | - | 1,227,433 |
| | <u>2,287,853</u> | <u>47,094</u> | <u>2,334,947</u> |
| Net Position | | | |
| Net investment in capital assets | 2,626,841 | 19,524 | 2,646,365 |
| Restricted for: | | | |
| Capital outlay | 2,751,473 | - | 2,751,473 |
| Special education | 492,391 | - | 492,391 |
| SDRS pension purposes | 241,106 | 10,708 | 251,814 |
| Unrestricted | 744,018 | 81,053 | 825,071 |
| | <u>6,855,829</u> | <u>111,285</u> | <u>6,967,114</u> |
| | <u>\$ 17,551,456</u> | <u>\$ 179,400</u> | <u>\$ 17,730,856</u> |

Northwestern Area School District 56-7
Statement of Activities
Year Ended June 30, 2022

| Functions/Programs | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|---|---------------------|-------------------------|--|--|-----------------------------|---------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Primary Government | | |
| | | | | Governmental Activities | Business-Type Activities | Total |
| Primary Government | | | | | | |
| Governmental activities: | | | | | | |
| Instruction | \$ 1,863,978 | \$ 10,349 | \$ 289,387 | \$ (1,564,242) | \$ - | \$ (1,564,242) |
| Support services | 1,316,357 | - | - | (1,316,357) | - | (1,316,357) |
| Community services | 20,918 | - | - | (20,918) | - | (20,918) |
| Interest on long-term debt | 55,629 | - | - | (55,629) | - | (55,629) |
| Co-curricular activities | 311,313 | 207,427 | - | (103,886) | - | (103,886) |
| Total governmental activities | <u>3,568,195</u> | <u>217,776</u> | <u>289,387</u> | <u>(3,061,032)</u> | <u>-</u> | <u>(3,061,032)</u> |
| Business-type activities: | | | | | | |
| Preschool | 24,269 | 21,066 | - | - | (3,203) | (3,203) |
| Drivers education | 4,895 | 4,800 | - | - | (95) | (95) |
| Concessions | 32,638 | 32,723 | - | - | 85 | 85 |
| Food service | 176,772 | 15,935 | 191,551 | - | 30,714 | 30,714 |
| Total business-type activities | <u>238,574</u> | <u>74,524</u> | <u>191,551</u> | <u>-</u> | <u>27,501</u> | <u>27,501</u> |
| Total primary government | <u>\$ 3,806,769</u> | <u>\$ 292,300</u> | <u>\$ 480,938</u> | <u>(3,061,032)</u> | <u>27,501</u> | <u>(3,033,531)</u> |
| General Revenues | | | | | | |
| Taxes: | | | | | | |
| Property taxes | | | | 2,507,696 | - | 2,507,696 |
| Tax deed revenue | | | | 550 | - | 550 |
| Gross receipts taxes | | | | 99,076 | - | 99,076 |
| Revenue from state sources: | | | | | | |
| State aid | | | | 652,781 | - | 652,781 |
| Revenue from federal sources | | | | | | |
| Unrestricted investment earnings (losses) | | | | 2,184 | - | 2,184 |
| Other general revenues | | | | (20,021) | 75 | (19,946) |
| Other general revenues | | | | 39,768 | - | 39,768 |
| Transfers | | | | (3,862) | 3,862 | - |
| Total general revenues and transfers | | | | <u>3,278,172</u> | <u>3,937</u> | <u>3,282,109</u> |
| Change in Net Position | | | | 217,140 | 31,438 | 248,578 |
| Net Position - Beginning | | | | 6,638,689 | 79,847 | 6,718,536 |
| Net Position - Ending | | | | <u>\$ 6,855,829</u> | <u>\$ 111,285</u> | <u>\$ 6,967,114</u> |

See Notes to Financial Statements

Northwestern Area School District 56-7

Balance Sheets – Governmental Funds

June 30, 2022

| | General Fund | Capital Outlay Fund | Special Education Fund | Total Governmental Funds |
|---|---------------------|---------------------------|------------------------------|--------------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 1,192,428 | \$ 2,854,312 | \$ 541,024 | \$ 4,587,764 |
| Investments | 218,532 | 7,201,705 | - | 7,420,237 |
| 110 Taxes receivable - current | 541,693 | 284,995 | 122,568 | 949,256 |
| 112 Taxes receivable - delinquent | 1,971 | 438 | 198 | 2,607 |
| 130 Due from General Fund | - | 269,892 | - | 269,892 |
| 140 Due from government | 118,796 | 84,057 | - | 202,853 |
| | <u>\$ 2,073,420</u> | <u>\$ 10,695,399</u> | <u>\$ 663,790</u> | <u>\$ 13,432,609</u> |
| Liabilities, Deferred Inflows, and Fund Balances | | | | |
| Liabilities | | | | |
| 402 Accounts payable | \$ 15,447 | \$ 27,741 | \$ 5,173 | \$ 48,361 |
| 404 Contracts payable | 182,521 | - | 10,756 | 193,277 |
| 410 Due to Capital Outlay Fund | 269,892 | - | - | 269,892 |
| 415 Amounts held for others | 5,569 | - | - | 5,569 |
| 450 Payroll deductions and withholdings and employer matching payable | 54,007 | - | 2,994 | 57,001 |
| Total liabilities | <u>527,436</u> | <u>27,741</u> | <u>18,923</u> | <u>574,100</u> |
| Deferred Inflows of Resources | | | | |
| 551 Unavailable revenue - delinquent property taxes | 1,971 | 438 | 198 | 2,607 |
| 553 Taxes levied for future period | 720,423 | 354,534 | 152,476 | 1,227,433 |
| Total deferred inflows of resources | <u>722,394</u> | <u>354,972</u> | <u>152,674</u> | <u>1,230,040</u> |
| Fund Balances | | | | |
| Restricted: | | | | |
| Capital outlay | - | 10,312,686 | - | 10,312,686 |
| Special education | - | - | 492,193 | 492,193 |
| Unassigned | 823,590 | - | - | 823,590 |
| Total fund balances | <u>823,590</u> | <u>10,312,686</u> | <u>492,193</u> | <u>11,628,469</u> |
| | <u>\$ 2,073,420</u> | <u>\$ 10,695,399</u> | <u>\$ 663,790</u> | <u>\$ 13,432,609</u> |

Northwestern Area School District 56-7
Reconciliation of the Governmental Funds Balance Sheets to the Statement of Net Position
Year Ended June 30, 2022

| | |
|--|----------------------------|
| Total Fund Balances - Governmental Funds | \$ 11,628,469 |
| Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 3,087,213 |
| Assets, such as delinquent taxes receivable, are not available to pay for current period expenditures and are deferred in the funds. | 2,607 |
| Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of: | |
| Early retirement obligations | (27,000) |
| Lease payable | (22,023) |
| Capital outlay certificates | (8,000,000) |
| Interest on long-term debt is not accrued in governmental funds, but, rather, is recognized as an expenditure when due. | (54,543) |
| Net pension liability (asset), pension related deferred inflows of resources, and pension related deferred outflows of resources do not represent available financial resources and, therefore, are not available financial resources and, therefore, are not reported in the funds. | <u>241,106</u> |
| Net Position - Governmental Funds | <u><u>\$ 6,855,829</u></u> |

Northwestern Area School District 56-7
Statements of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2022

| | General Fund | Capital Outlay Fund | Special Education Fund | Total Governmental Funds |
|---|------------------|---------------------------|------------------------------|--------------------------------|
| Revenues | | | | |
| 1000 Revenue from local sources | | | | |
| 1100 Taxes: | | | | |
| 1110 Ad valorem taxes | \$ 1,486,009 | \$ 704,264 | \$ 302,990 | \$ 2,493,263 |
| 1120 Prior year's ad valorem taxes | 13,059 | 4,718 | 2,347 | 20,124 |
| 1130 Tax deed revenue | 550 | - | - | 550 |
| 1140 Gross receipts taxes | 99,076 | - | - | 99,076 |
| 1190 Penalties and interest on taxes | 4,204 | 1,916 | 883 | 7,003 |
| 1500 Earnings (losses) on investments and deposits | 8,754 | (28,775) | - | (20,021) |
| 1700 Co-curricular activities: | | | | |
| 1710 Admissions | 21,181 | - | - | 21,181 |
| 1740 Rentals | 2,482 | - | - | 2,482 |
| 1790 Other student activity income | 183,764 | - | - | 183,764 |
| 1900 Other revenue from local sources: | | | | |
| 1920 Contributions and donations | 3,375 | 6,358 | - | 9,733 |
| 1960 Judgements | 3,130 | - | - | 3,130 |
| 1970 Charges for services | 2,014 | - | 8,335 | 10,349 |
| 1990 Other | 2,968 | 6,848 | - | 9,816 |
| 2000 Revenue from intermediate sources | | | | |
| 2100 County sources: | | | | |
| 2110 County apportionment | 16,300 | - | - | 16,300 |
| 2200 Revenue in lieu of taxes | 1,930 | 41 | 18 | 1,989 |
| 3000 Revenue from state sources | | | | |
| 3100 Grants-in-aid: | | | | |
| 3110 Unrestricted grants-in-aid | 650,604 | - | - | 650,604 |
| 3120 Restricted grants-in-aid | 2,177 | - | - | 2,177 |
| 4000 Revenue from federal sources | | | | |
| 4100 Grants-in-aid: | | | | |
| 4130 Unrestricted grants-in-aid received from federal government through an intermediate source | 369 | - | - | 369 |
| 4150-4199 Restricted grants-in-aid received from federal government through the state | 141,819 | 147,199 | - | 289,018 |
| 4900 Other federal revenue | 2,184 | - | - | 2,184 |
| Total revenues | <u>2,645,949</u> | <u>842,569</u> | <u>314,573</u> | <u>3,803,091</u> |
| Expenditures | | | | |
| 1000 Instruction | | | | |
| 1100 Regular programs: | | | | |
| 1110 Elementary | 498,488 | 12,128 | - | 510,616 |
| 1120 Middle/junior high | 254,381 | 27,905 | - | 282,286 |
| 1130 High school | 638,103 | 98,220 | - | 736,323 |
| 1200 Special programs: | | | | |
| 1220 Programs for special education | - | - | 272,398 | 272,398 |
| 1270 Educationally deprived | 67,458 | - | - | 67,458 |
| 2000 Support services | | | | |
| 2100 Pupils: | | | | |
| 2120 Guidance | 59,662 | - | - | 59,662 |
| 2130 Health | 1,637 | - | - | 1,637 |
| 2140 Psychological | - | - | 7,699 | 7,699 |
| 2150 Speech pathology | - | - | 18,076 | 18,076 |

Northwestern Area School District 56-7
 Statements of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
 Year Ended June 30, 2022

| | General Fund | Capital Outlay Fund | Special Education Fund | Total Governmental Funds |
|---|-------------------|---------------------------|------------------------------|--------------------------------|
| 2200 Support services - instructional staff: | | | | |
| 2210 Improvement of instruction | 39,007 | - | - | 39,007 |
| 2220 Educational media | 46,070 | 3,453 | - | 49,523 |
| 2300 Support services - general administration: | | | | |
| 2310 Board of Education | 106,433 | - | - | 106,433 |
| 2320 Executive administration | 110,258 | - | - | 110,258 |
| 2400 Support services - school administration: | | | | |
| 2410 Office of the principal | 114,357 | - | - | 114,357 |
| 2490 Other support services | 177 | 1,000 | - | 1,177 |
| 2500 Support services - business: | | | | |
| 2520 Fiscal services | 107,539 | 5,393 | - | 112,932 |
| 2530 Facilities acquisition and construction | - | - | - | - |
| 2540 Operation and maintenance of plant | 292,505 | 18,253 | - | 310,758 |
| 2550 Pupil transportation | 229,844 | - | - | 229,844 |
| 2590 Other | - | 73,000 | - | 73,000 |
| 2600 Support services - central: | | | | |
| 2640 Staff | 865 | - | - | 865 |
| 2700 Support services - special education: | | | | |
| 2710 Administrative costs | - | - | 11,918 | 11,918 |
| 3000 Community services | | | | |
| 3700 Nonpublic school | 20,918 | - | - | 20,918 |
| 5000 Debt services | - | 8,073 | - | 8,073 |
| 6000 Co-curricular activities | | | | |
| 6100 Male activities | 55,174 | - | - | 55,174 |
| 6200 Female activities | 65,302 | - | - | 65,302 |
| 6900 Combined activities | 148,658 | 15,683 | - | 164,341 |
| 7500 Capital outlay | - | 576,053 | - | 576,053 |
| Total expenditures | 2,856,836 | 839,161 | 310,091 | 4,006,088 |
| Excess of Revenues over (under) Expenditures | (210,887) | 3,408 | 4,482 | (202,997) |
| Other Financing Sources (Uses) | | | | |
| 5124 Lease proceeds | - | 26,490 | - | 26,490 |
| 5125 Capital outlay certificates issued | - | 8,000,000 | - | 8,000,000 |
| 5130 Sale of surplus property | - | 1,000 | - | 1,000 |
| 8110 Transfers out | (3,862) | - | - | (3,862) |
| Total other financing sources (uses) | (3,862) | 8,027,490 | - | 8,023,628 |
| Net Change in Fund Balances | (214,749) | 8,030,898 | 4,482 | 7,820,631 |
| Fund Balance - Beginning | 1,038,339 | 2,281,788 | 487,711 | 3,807,838 |
| Fund Balance - Ending | \$ 823,590 | \$ 10,312,686 | \$ 492,193 | \$ 11,628,469 |

Northwestern Area School District 56-7

Reconciliation of the Statements of Revenues, Expenditures, and Changes in Fund Balances to the Government-
Wide Statement of Activities
Year Ended June 30, 2022

| | |
|--|--------------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 7,820,631 |
| Amounts Reported for Governmental Activities in the Statement of Activities are Different Because: | |
| Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$576,053) exceeded depreciation/amortization (\$206,257) in the current period. | 369,796 |
| In the statement of activities, gains and losses on disposal of capital assets are reported; whereas, in the governmental funds, the proceeds from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized. | (2,200) |
| The issuance of long-term debt is an other financing source in the fund statements, but is an increase in long-term liabilities on the government wide statements. | (8,026,490) |
| Governmental funds do not reflect the change in early retirement debt; but, the effects of this debt is reflected in the statement of activities. | (27,000) |
| Payment of principal on long-term debt is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position. | 6,987 |
| Accrued interest reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as expenditures in governmental funds. | (54,543) |
| In both the government-wide and fund financial statements, revenues from tax levies are applied to finance the budget of a particular period. Accounting for revenues from tax accruals in the fund's statements differs from the accounting in the government-wide statements in that the fund financial statements require the amounts to be "available." This amount reflects the application of both the application period and "availability criteria." | (12,694) |
| Revenues and reductions of expenses related to pensions do not provide current financial resources and, therefore, are not reported in the funds. | <u>142,653</u> |
| Change in Net Position of Governmental Activities | <u><u>\$ 217,140</u></u> |

Northwestern Area School District 56-7

Statements of Net Position – Proprietary Funds

June 30, 2022

| | Enterprise | | Total |
|--|-------------------|-------------------------------|-------------------|
| | Food Service Fund | Other Education Programs Fund | |
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 91,054 | \$ 221 | \$ 91,275 |
| 171 Inventory of stores purchased for resale | 1,680 | - | 1,680 |
| 172 Inventory of donated food | 6,439 | - | 6,439 |
| Total current assets | 99,173 | 221 | 99,394 |
| Noncurrent Assets | | | |
| 196 Net pension asset | 19,447 | 4,930 | 24,377 |
| 200 Capital assets: | | | |
| 204 Machinery and equipment - local funds | 77,993 | - | 77,993 |
| 205 Machinery and equipment - fed assist | 2,680 | - | 2,680 |
| 208 Accumulated depreciation - machinery and equipment | (58,469) | - | (58,469) |
| Total noncurrent assets | 41,651 | 4,930 | 46,581 |
| Deferred Outflows of Resources | | | |
| Pension related deferred outflows | 26,665 | 6,760 | 33,425 |
| | <u>\$ 167,489</u> | <u>\$ 11,911</u> | <u>\$ 179,400</u> |
| Liabilities | | | |
| 474 Unearned revenue | \$ 21,021 | \$ - | \$ 21,021 |
| Total liabilities | 21,021 | - | 21,021 |
| Deferred Inflows of Resources | | | |
| 554 Pension related deferred inflows | 37,569 | 9,525 | 47,094 |
| Net Position | | | |
| 706 Net investment in capital assets | 19,524 | - | 19,524 |
| 707 Restricted for SDRS pension purposes | 8,543 | 2,165 | 10,708 |
| 708 Unrestricted net position | 80,832 | 221 | 81,053 |
| Total net position | 108,899 | 2,386 | 111,285 |
| | <u>\$ 167,489</u> | <u>\$ 11,911</u> | <u>\$ 179,400</u> |

Northwestern Area School District 56-7
 Statements of Revenues, Expenses, and Changes in Net Position – Proprietary Funds
 Year Ended June 30, 2022

| | Enterprise | | Total |
|------------------------------------|----------------------|-------------------------------------|-------------------|
| | Food Service Fund | Other Education Programs Fund | |
| Operating Revenues | | | |
| Tuition and fees | | | |
| 1310 Student tuition | \$ - | \$ 25,866 | \$ 25,866 |
| Sales | | | |
| 1610 To pupils | 11,330 | - | 11,330 |
| 1620 To adults | 4,605 | - | 4,605 |
| 1630 Concessions | - | 32,723 | 32,723 |
| Total operating revenues | <u>15,935</u> | <u>58,589</u> | <u>74,524</u> |
| Operating Expenses | | | |
| 100 Salaries | 60,474 | 27,038 | 87,512 |
| 200 Employee benefits | 3,670 | 2,639 | 6,309 |
| 300 Purchased services | 5,890 | - | 5,890 |
| 400 Supplies | 8,270 | 17,608 | 25,878 |
| 461 Cost of sales - purchased food | 83,784 | 14,517 | 98,301 |
| 462 Cost of sales - donated food | 11,203 | - | 11,203 |
| 600 Other | 10 | - | 10 |
| 900 Depreciation | 3,471 | - | 3,471 |
| Total operating expenses | <u>176,772</u> | <u>61,802</u> | <u>238,574</u> |
| Operating Loss | <u>(160,837)</u> | <u>(3,213)</u> | <u>(164,050)</u> |
| Nonoperating Revenues | | | |
| Local sources | | | |
| 1990 Other | 75 | - | 75 |
| State sources | | | |
| 3810 Cash reimbursements | 400 | - | 400 |
| Federal sources | | | |
| 4810 Cash reimbursements | 179,948 | - | 179,948 |
| 4820 Donated food | 11,203 | - | 11,203 |
| Total nonoperating revenues | <u>191,626</u> | <u>-</u> | <u>191,626</u> |
| Income (Loss) Before Transfers | 30,789 | (3,213) | 27,576 |
| 5110 Transfers in | 162 | 3,700 | 3,862 |
| Change in Net Position | 30,951 | 487 | 31,438 |
| Net Position - Beginning | 77,948 | 1,899 | 79,847 |
| Net Position - Ending | <u>\$ 108,899</u> | <u>\$ 2,386</u> | <u>\$ 111,285</u> |

Northwestern Area School District 56-7
Statements of Cash Flows – Proprietary Funds
Year Ended June 30, 2022

| | Enterprise | | Total |
|--|---------------------|-------------------------------|---------------------|
| | Food Service Fund | Other Education Programs Fund | |
| Cash Flows from (used for) Operating Activities | | | |
| Receipts from customers | \$ 21,424 | \$ 58,669 | \$ 80,093 |
| Payments to suppliers | (94,964) | (35,322) | (130,286) |
| Payments to employees | (70,136) | (30,830) | (100,966) |
| Net Cash used for Operating Activities | <u>(143,676)</u> | <u>(7,483)</u> | <u>(151,159)</u> |
| Cash Flows from Noncapital Financing Activities | | | |
| Transfers in | 162 | 3,700 | 3,862 |
| Operating subsidies | 180,348 | - | 180,348 |
| Net Cash from Noncapital Financing Activities | <u>180,510</u> | <u>3,700</u> | <u>184,210</u> |
| Cash Flows used for Capital and Related Financing Activities | | | |
| Purchase of capital assets | (7,797) | - | (7,797) |
| Net Cash used for Capital and Related Financing Activities | <u>(7,797)</u> | <u>-</u> | <u>(7,797)</u> |
| Cash Flows from Investing Activities | | | |
| Interest Earnings | 75 | - | 75 |
| Net Cash from Investing Activities | <u>75</u> | <u>-</u> | <u>75</u> |
| Change in Cash and Cash Equivalents | 29,112 | (3,783) | 25,329 |
| Cash and Cash Equivalents, Beginning of Year | 61,942 | 4,004 | 65,946 |
| Cash and Cash Equivalents, End of Year | <u>\$ 91,054</u> | <u>\$ 221</u> | <u>\$ 91,275</u> |
| Reconciliation of Operating Loss to | | | |
| Net Cash used for Operating Activities: | | | |
| Operating loss | \$ (160,837) | \$ (3,213) | \$ (164,050) |
| Adjustments to reconcile operating loss to net cash used for operating activities: | | | |
| Depreciation expense | 3,471 | - | 3,471 |
| Value of donated commodities used | 11,203 | - | 11,203 |
| Change in assets and liabilities: | | | |
| Inventories | 2,990 | - | 2,990 |
| Net pension asset/liability | (19,368) | (4,899) | (24,267) |
| Pension deferred inflows | 27,246 | 5,431 | 32,677 |
| Pension deferred outflows | (13,870) | (1,685) | (15,555) |
| Accounts receivable | - | 80 | 80 |
| Accounts payable | - | (3,197) | (3,197) |
| Unearned revenue | 5,489 | - | 5,489 |
| Net Cash used for Operating Activities | <u>\$ (143,676)</u> | <u>\$ (7,483)</u> | <u>\$ (151,159)</u> |
| Noncash Investing, Capital, and Financing Activities | | | |
| Value of Commodities Received | \$ 11,203 | \$ - | \$ 11,203 |

Northwestern Area School District 56-7
Statement of Fiduciary Net Position – Fiduciary Fund
June 30, 2022

| | <u>Custodial Fund</u> |
|-----------------------------|---------------------------|
| Assets | |
| Cash and cash equivalents | \$ 9,699 |
| Investments | <u>70,471</u> |
| | <u>\$ 80,170</u> |
| Net Position | |
| Restricted for scholarships | <u>\$ 80,170</u> |
| | <u>\$ 80,170</u> |

Northwestern Area School District 56-7
Statement of Changes in Fiduciary Net Position – Fiduciary Fund
Year Ended June 30, 2022

| | <u>Custodial Fund</u> |
|-----------------------------|---------------------------|
| Additions | |
| Contributions and donations | <u>\$ 4,858</u> |
| Total additions | <u>4,858</u> |
| Deductions | |
| Scholarships awarded | <u>11,150</u> |
| Total deductions | <u>11,150</u> |
| Change in Net Position | (6,292) |
| Net Position - Beginning | <u>86,462</u> |
| Net Position - Ending | <u><u>\$ 80,170</u></u> |

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Northwestern Area School District 56-7 conform to generally accepted accounting principles applicable to governmental entities in the United States of America.

Financial Reporting Entity

The reporting entity of Northwestern Area School District 56-7 (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 School District's financial statements to be misleading or incomplete.

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

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

Basis of Presentation

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

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

Governmental Funds

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

Special Revenue Fund Types – Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Capital Outlay, Special Education and Pension Funds are the special revenue funds maintained by the School District.

Capital Outlay Fund – A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of, or additions to real property, plant or equipment, textbooks and instructional software. This fund is financed by property taxes and grants. 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 Fund Types – Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The following are funds maintained by the School District:

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

Other Education Programs Fund – A fund used to record financial transactions related to other enterprise fund operations. This fund is financed by user charges. This is a major fund.

Fiduciary Funds

Fiduciary funds are never considered to be major funds.

Custodial Fund – 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 one custodial fund for scholarships.

Measurement Focus and Basis of Accounting

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

Measurement Focus

Government-Wide Financial Statements

In the government-wide statement of net position and statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements

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

Basis of Accounting

Government-Wide Financial Statements

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

Fund Financial Statements

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes generally are recognized when they become measurable and available. "Available" means resources are collected, or to be collected, soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the School District's property taxes and most other revenues other than reimbursement grants is 60 days. Revenue from reimbursement grants from federal or state sources is considered available and recorded in the year in which the related expenditure is made. Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which are recognized when due.

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

Inventory

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out (FIFO). Donated commodities are valued at estimated market value based on the USDA price list at date of receipt. In the government-wide financial statements and the proprietary funds in the fund financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the governmental fund financial statements, inventories in the General Fund and special revenue funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a non-spendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. The School District did not have any material amounts of inventory in the General Fund or special revenue funds.

Interfund Eliminations and Reclassifications

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

In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as internal balances (if any).

Fund Financial Statements – Noncurrent portions of long-term interfund receivables are reported as nonspendable fund balance to the extent that the proceeds from the collection of those receivables are not restricted, committed or assigned. Current portions of interfund receivables are considered “available spendable resources” and are reported in the appropriate fund balance category.

Capital Assets

Capital assets include land, buildings, and machinery and equipment 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.

Right-to-use leased assets are recognized at the lease commencement date and represent the School District’s right to use an underlying asset for the lease term. Right-to-use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the leased asset into service. Right-to-use leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period is 5 years.

Government-Wide Statements

All capital assets are valued at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs. The total June 30, 2022, balance of capital assets for governmental activities and business-type activities are all valued at original cost.

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

| | <u>Capitalization Threshold</u> | <u>Depreciation Method</u> | <u>Estimated Useful Life</u> |
|-------------------------|-------------------------------------|--------------------------------|----------------------------------|
| Land* | \$ 1,000 | N/A | N/A |
| Buildings | 25,000 | Straight-Line | 50 years |
| Machinery and equipment | 5,000 | Straight-Line | 5-10 years |
| Food service equipment | 300 | Straight-Line | 12 years |

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

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the 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 of direct borrowing capital outlay certificates and lease liabilities.

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.

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

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.

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. Approximately 50% is considered to be applied to finance the budget of the current fiscal year, and the remaining 50% is considered to be applied to finance the budget for the subsequent year. The county bills and collects the School District's taxes and remits them to the School District.

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. 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 in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period."

Proprietary Funds Revenue and Expense Classifications

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

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

Deposits and Investments

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

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

Equity Classifications**Government-Wide Statements**

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

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

Fund Financial Statements

Governmental fund equity is classified as fund balance, and may distinguish between non-spendable, restricted, committed, assigned, and unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity is reported as net position held in trust for scholarships.

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.

Fund Balance Classification Policies and Procedures

The School District classifies governmental fund balances as follows:

- Nonspendable – Includes fund balance amounts that cannot be spent either because they are 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, the School Board, and does not lapse at year-end.
- Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are considered neither restricted nor committed. Fund balance may be assigned by the School Board or Business Manager.
- Unassigned – Includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

The 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 government would first use committed, then assigned and, lastly, unassigned amounts of unrestricted fund balance when expenditures are made.

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

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

Major Special Revenue Fund

Capital Outlay
Special Education

Revenue Source

Property Taxes and Grants
Property Taxes, Grants, and State Aid

Pensions

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

Deferred Outflows and Inflows of Resources

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

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

Implementation of GASB Statement No. 87

As of July 1, 2021, the School District adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain right-to-use leased assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. As a result of implementing this standard, there was no needed right-of-use asset and lease liability required to be recognized as of the implementation date as all existing leases had a remaining term of twelve months or less, and, therefore, there was also no effect on beginning net position. The additional disclosures required by this standard are included in Note 5.

Note 2 - Deposits and Investments Fair Value Measurement, Credit Risk, Concentrations of Credit Risk, and Interest Rate Risk

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

Deposits

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

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

Custodial Credit Risk - Deposits – The risk that, in the event of a depository failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2022, the School District's bank balances were \$4,989,199, which includes certificates of deposit and bank accounts. Of these deposits, \$550,284 was covered by the FDIC, and the remaining balance was uninsured but collateralized with securities held by the pledging financial institution.

Investments

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

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

The School District holds certificates of deposits with financial institutions, U.S. Treasury notes, and money market account funds in the South Dakota Public Fund Investment Trust Government Cash Reserve Fund (SD FIT GCR) as investments. The certificates of deposits and money market account funds in the SD FIT GCR are held at amortized cost, while the U.S. Treasury notes are reported at fair value as Level 2.

The School District has the following balances reported as investments as of June 30, 2022:

| | Moody's Credit Rating | Fair Value | Amortized Cost | Maturity (In Years) | |
|-------------------------|--------------------------|--------------|----------------|---------------------|--------------|
| | | | | Less Than 1 | 1 to 5 |
| U.S. Treasury notes | Aaa | \$ 6,868,657 | \$ - | \$ 4,803,733 | \$ 2,064,924 |
| Certificates of deposit | Not Rated | - | 253,300 | 253,300 | - |
| SD FIT GCR | Not Rated | - | 348,564 | 348,564 | - |

The SD FIT GCR money market account is an external investment pool created for South Dakota local government investing purposes. It is regulated by a nine-member board with representation from municipalities, school districts and counties. The net asset value of the SD FIT GCR money market account is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

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

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

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

Concentration of Credit Risk – The School District places no limit on the amount that may be invested in any one issuer. More than 5% of the School District's investments are in U.S. Treasury notes which were approximately 92% of total investments.

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

Note 3 - Capital Assets

A summary of changes in governmental activities capital assets for the year ended June 30, 2022, is as follows:

| Primary Government Governmental Activities | Balance 07/01/21 | Increases | Decreases | Balance 06/30/22 |
|--|---------------------|------------|-----------|---------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 765 | \$ - | \$ - | \$ 765 |
| Construction in progress | - | 438,349 | - | 438,349 |
| Total capital assets not being depreciated | 765 | 438,349 | - | 439,114 |
| Capital and right-to-use lease assets being depreciated/amortized: | | | | |
| Buildings | 4,273,538 | 83,682 | - | 4,357,220 |
| Machinery and equipment | 1,256,880 | 27,532 | 33,300 | 1,251,112 |
| Right-to-use lease equipment | - | 26,490 | - | 26,490 |
| Total capital and right-to-use lease assets being depreciated/amortized | 5,530,418 | 137,704 | 33,300 | 5,634,822 |
| Less accumulated depreciation/amortization for: | | | | |
| Buildings | 2,119,013 | 105,511 | - | 2,224,524 |
| Machinery and equipment | 692,553 | 95,890 | 31,100 | 757,343 |
| Right-to-use lease equipment | - | 4,856 | - | 4,856 |
| Total accumulated depreciation/amortization | 2,811,566 | 206,257 | 31,100 | 2,986,723 |
| Total capital and right-to-use lease assets being depreciated/amortized, net | 2,718,852 | (68,553) | 2,200 | 2,648,099 |
| Governmental activity capital and right-to-use lease assets, net | \$ 2,719,617 | \$ 369,796 | \$ 2,200 | \$ 3,087,213 |

Depreciation/amortization expense was charged to functions as follows:

| | |
|---|------------|
| Governmental activities: | |
| Instruction | \$ 92,258 |
| Support services | 83,181 |
| Co-curricular activities | 30,818 |
| Total depreciation/amortization expense - governmental activities | \$ 206,257 |

Northwestern Area School District 56-7

Notes to Financial Statements

June 30, 2022

A summary of changes in business-type activities capital assets for the year ended June 30, 2022, is as follows:

| <u>Business-Type Activities</u> | <u>Balance 07/01/21</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance 06/30/22</u> |
|--|-----------------------------|------------------|------------------|-----------------------------|
| Capital assets being depreciated: | | | | |
| Machinery and equipment | \$ 72,876 | \$ 7,797 | \$ - | \$ 80,673 |
| Total capital assets being depreciated | <u>72,876</u> | <u>7,797</u> | <u>-</u> | <u>80,673</u> |
| Less accumulated depreciation for: | | | | |
| Machinery and equipment | 54,998 | 3,471 | - | 58,469 |
| Total accumulated depreciation | <u>54,998</u> | <u>3,471</u> | <u>-</u> | <u>58,469</u> |
| Total capital assets being depreciated, net | <u>17,878</u> | <u>4,326</u> | <u>-</u> | <u>22,204</u> |
| Business-type activities capital assets, net | <u>\$ 17,878</u> | <u>\$ 4,326</u> | <u>\$ -</u> | <u>\$ 22,204</u> |

Depreciation expense was charged to functions as follows:

| | |
|---|-----------------|
| Business-type activities: | |
| Food services | \$ 3,471 |
| Total depreciation expense - business-type activities | <u>\$ 3,471</u> |

Note 4 - Noncurrent Liabilities

A summary of the changes in long-term liabilities for the year ended June 30, 2022, is as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Decreases</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|----------------------------------|------------------------------|---------------------|------------------|---------------------------|--------------------------------|
| Governmental Activities: | | | | | |
| Direct borrowings | | | | | |
| Capital outlay certificates 2022 | \$ - | \$ 8,000,000 | \$ - | \$ 8,000,000 | \$ - |
| Leases | 2,520 | 26,490 | 6,987 | 22,023 | 4,986 |
| Total debt | <u>2,520</u> | <u>8,026,490</u> | <u>6,987</u> | <u>8,022,023</u> | <u>4,986</u> |
| Early retirement benefits | - | 27,000 | - | 27,000 | 5,400 |
| Total governmental activities | <u>\$ 2,520</u> | <u>\$ 8,053,490</u> | <u>\$ 6,987</u> | <u>\$ 8,049,023</u> | <u>\$ 10,386</u> |

The annual debt service requirements to maturity for noncurrent liabilities other than leases as of June 30, 2022, are as follows:

| <u>Year Ending June 30:</u> | <u>C.O. Certificates</u> | | <u>Early Retirement Benefits</u> | | <u>Total</u> | |
|---------------------------------|--------------------------|---------------------|----------------------------------|-----------------|---------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2023 | \$ - | \$ 187,044 | \$ 5,400 | \$ - | \$ 5,400 | \$ 187,044 |
| 2024 | 253,879 | 210,998 | 5,400 | - | 259,279 | 210,998 |
| 2025 | 340,488 | 203,034 | 5,400 | - | 345,888 | 203,034 |
| 2026 | 349,613 | 193,786 | 5,400 | - | 355,013 | 193,786 |
| 2027 | 358,982 | 184,291 | 5,400 | - | 364,382 | 184,291 |
| Thereafter | 6,697,038 | 1,434,438 | - | - | 6,697,038 | 1,434,438 |
| | <u>\$ 8,000,000</u> | <u>\$ 2,413,591</u> | <u>\$ 27,000</u> | <u>\$ -</u> | <u>\$ 8,027,000</u> | <u>\$ 2,413,591</u> |

Long-term liabilities other than leases are comprised of the following individual issues:

- Early retirement – Early retirement benefits payable for governmental activities typically have been liquidated from the General Fund. Early retirement benefits payable require annual payments of \$5,400 through 2027.
- Direct borrowing capital outlay certificates 2022 – Capital outlay certificates were issued in 2022 with a private bank at an interest rate of 2.68% and maturity date of August 2041. Debt service payments made by the Capital Outlay fund.

Note 5 - Leases

The School District has entered into a lease agreement for copier machines. The School District is required to make monthly payments of \$498 through July 2026. At June 30, 2022, the School District recognized a right-to-use asset of \$21,634 and a lease liability of \$22,023 related to this agreement. The School District recorded \$4,856 in amortization expense and \$1,009 in interest expense for the right to use the equipment. The lease liability was valued using the School District's incremental borrowing rate at the inception of the leases, determined to be 5%.

Remaining principal and interest payments on leases are as follows:

| <u>Year Ending June 30:</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------------------|------------------|-----------------|
| 2023 | \$ 4,986 | \$ 988 |
| 2024 | 5,241 | 733 |
| 2025 | 5,509 | 465 |
| 2026 | 5,791 | 183 |
| 2027 | 496 | 2 |
| | <u>\$ 22,023</u> | <u>\$ 2,371</u> |

Note 6 - Restricted Net Position

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

| <u>Fund</u> | <u>Restricted By</u> | <u>Amount</u> |
|-------------------------------|----------------------|---------------------|
| Capital Outlay | Law | \$ 2,751,473 |
| Special Education | Law | 492,391 |
| SDRS Pension Purposes | Law | <u>251,814</u> |
| Total restricted net position | | <u>\$ 3,495,678</u> |

Note 7 - Interfund Transfers

Interfund transfers for the year ended June 30, 2022, consisted of transfers totaling \$3,862 from the General Fund to the Other Education Programs Fund and the Food Service Fund.

SDCL 13-16-26 gives the School Board the authority to transfer all or part of any surplus of any School District fund, except the Capital Outlay Fund provided by SDCL 13-16-6 to 13-16-9, inclusive, and the Special Education Fund provided by SDCL 13-37-16, may be transferred to any other School District fund. The interfund transfers above are not a violation of the statutory restrictions on interfund transfers. The transfer above was made to supplement operations.

Note 8 - Joint Ventures

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

North Central Special Education Cooperative

The members of the Co-op having equal participation are as follows:

| | |
|---------------------------------|-----------------------------------|
| Edmunds Central School District | Hitchcock-Tulare School District |
| Doland School District | Leola School District |
| Groton Area School District | Langford Area School District |
| Frederick Area School District | Northwestern Area School District |
| Warner School District | |

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

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

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

At June 30, 2022, this joint venture had total unaudited assets and fund equity of \$418,389.

Note 9 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2022, the School District managed its risks as follows:

Employee Health Insurance

The School District joined the South Dakota School District Health Benefits Fund (SDSDBF). This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local governmental entities. The School District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members.

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

Liability Insurance

The School District joined the Associated School Boards of South Dakota Property 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, 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 commercial general liability, automobile liability, and school board legal liability coverage.

The agreement with ASBSD-PLF provides that the above coverages will be provided to a \$2,000,000 limit. 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 carries no deductible for the commercial general liability and automobile liability coverages, and \$5,000 defense only claims and \$10,000 school board legal liability claims deductible for the school board legal liability coverage.

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

Workers' Compensation

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provided workers' compensation insurance coverage for participating members of the pool. The objective of the fund is to formulate, develop and administer, on behalf of the member organizations, a program of workers' compensation coverage to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to, and cooperate with, the fund to resolve any workers' compensation claims. The School District pays an annual premium to provide workers' compensation coverage for its employees under a retrospectively rated policy, and the premiums are accrued based on the ultimate cost of the experience-to-date of the 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 an additional \$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 from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits

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

During the year ended June 30, 2022, no claims for unemployment benefits were paid. At June 30, 2022, no claims had been filed for unemployment benefits in 2022 and none are anticipated in the next fiscal year.

Note 10 - Litigation

At June 30, 2022, the School District was not involved in any litigation.

Note 11 - Pension Plan**Plan Information**

All employees working more than 20 hours per week during the school year participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer, defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions is 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 <https://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

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

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

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

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

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

All benefits, except those depending on the member’s accumulated contributions, are annually increased by the cost-of-living adjustment.

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A members, 6.0% of salary; Class B judicial members, 9.0% of salary; and Class B public safety members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee’s contribution. The School District’s share of contributions to the SDRS for the fiscal years ended June 30, 2022, 2021, and 2020, were \$105,161, \$101,913, and \$95,745, respectively, equal to the required contributions each year.

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

At June 30, 2021, SDRS is 105.52% funded and, accordingly, has a net pension asset. The proportionate share of the components of the net pension asset of SDRS for the School District as of the measurement period ending June 30, 2021, and reported by the School District as of June 30, 2022, are as follows:

| | |
|---|---------------|
| Proportionate share of net pension liability | \$ 10,379,810 |
| Less proportionate share of net pension restricted for pension benefits | 10,953,078 |
| Proportionate share of net pension liability (asset) | \$ (573,268) |

At June 30, 2022, the School District reported a liability (asset) of (\$573,268) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2021, 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, 2021, the School District’s proportion was 0.0748560%, which is an increase (decrease) of 0.0021464% from its proportion measured as of June 30, 2020.

Northwestern Area School District 56-7

Notes to Financial Statements

June 30, 2022

For the year ended June 30, 2022, the School District recognized a reduction of pension expense of \$149,798. At June 30, 2022, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Difference between expected and actual experience | \$ 20,582 | \$ 1,503 |
| Changes in assumption | 659,253 | 287,085 |
| Net difference between projected and actual earnings on pension plan investments | - | 818,926 |
| Changes in proportion and difference between School District contributions and proportionate share of contributions | 1,064 | - |
| School District contributions subsequent to the measurement date | 105,161 | - |
| Total | \$ 786,060 | \$ 1,107,514 |

The \$105,161 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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

| Year Ended June 30: | Amount |
|---------------------|---------------------|
| 2023 | \$ (104,870) |
| 2024 | (71,429) |
| 2025 | (19,939) |
| 2026 | (230,377) |
| | \$ (426,615) |

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|------------------|--|
| Inflation | 2.25% |
| Salary increases | Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service |
| Discount rate | 6.50% net of plan investment expense, composed of an average inflation rate of 2.25% and real returns of 4.25% |
| Future COLAs | 2.25% |

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

The actuarial assumptions used in the June 30, 2021, valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---------------|-------------------|--|
| Global Equity | 58.0% | 4.3% |
| Fixed Income | 30.0% | 1.6% |
| Real Estate | 10.0% | 4.6% |
| Cash | 2.0% | 0.9% |
| | 100.0% | |

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 from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

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

The following presents the School District's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50%, 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:

| | <u>1% Decrease</u> | <u>Current Discount Rate</u> | <u>1% Increase</u> |
|---|--------------------|----------------------------------|-----------------------|
| School District's proportionate share of the net pension liability (asset) | <u>\$ 928,265</u> | <u>\$ (573,268)</u> | <u>\$ (1,792,165)</u> |

Pension Plan Fiduciary Net Position

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

Note 12 - Receivables and Payables

The School District does not aggregate receivables and payables in the financial statements. The amount recorded as due from other governments consists of \$54,687 for utility tax revenues in the General Fund from the state. The General Fund also has accounts receivable from the county for utility tax revenues in the amount of \$44,389. The General Fund also has accounts receivable from the federal government relating to ESSER grant revenues in the amount of \$19,720. The Capital Outlay Fund has amounts due from other governments consisting of \$84,057 of ESSER grant revenues. The School District expects all receivables to be collected within one year. Based on the nature of the receivables, no allowances for estimated uncollectible have been established.

Note 13 - Commitments

As of June 30, 2022, the School District had approximately \$9,700,000 of remaining commitments related to ongoing construction of various building projects, expected to be paid from the Capital Outlay fund.



Required Supplementary Information
June 30, 2022

Northwestern Area School District 56-7

Northwestern Area School District 56-7
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2022

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|------------------|------------------|-------------------------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| 1000 Revenue from local sources | | | | |
| 1100 Taxes: | | | | |
| 1110 Ad valorem taxes | \$ 1,535,400 | \$ 1,535,400 | \$ 1,486,009 | \$ (49,391) |
| 1120 Prior year's ad valorem taxes | 5,000 | 5,000 | 13,059 | 8,059 |
| 1130 Tax deed revenue | - | - | 550 | 550 |
| 1140 Gross receipts taxes | 100,000 | 100,000 | 99,076 | (924) |
| 1190 Penalties and interest on taxes | 4,500 | 4,500 | 4,204 | (296) |
| 1500 Earnings on investments and deposits | 5,000 | 5,000 | 8,754 | 3,754 |
| 1700 Co-curricular activities: | | | | |
| 1710 Admissions | 21,500 | 21,500 | 21,181 | (319) |
| 1740 Rentals | 700 | 700 | 2,482 | 1,782 |
| 1790 Other pupil activity income | 31,000 | 31,000 | 183,764 | 152,764 |
| 1900 Other revenue from local sources: | | | | |
| 1920 Contributions and donations | 4,000 | 4,000 | 3,375 | (625) |
| 1960 Judgements | - | - | 3,130 | 3,130 |
| 1970 Charges for services | 3,400 | 3,400 | 2,014 | (1,386) |
| 1990 Other | 1,500 | 1,500 | 2,968 | 1,468 |
| 2000 Revenue from intermediate sources | | | | |
| 2100 County sources: | | | | |
| 2110 County apportionment | 12,000 | 12,000 | 16,300 | 4,300 |
| 2200 Revenue in lieu of taxes | - | - | 1,930 | 1,930 |
| 3000 Revenue from state sources | | | | |
| 3100 Grants-in-aid: | | | | |
| 3110 Unrestricted grants-in-aid | 518,807 | 518,807 | 650,604 | 131,797 |
| 3120 Restricted grants-in-aid | - | - | 2,177 | 2,177 |
| 4000 Revenue from federal sources | | | | |
| 4100 Grants-in-aid: | | | | |
| 4130 Unrestricted grants-in-aid received from federal government through an intermediate source | - | - | 369 | 369 |
| 4150-4199 Restricted grants-in-aid received from federal government through the state | 112,253 | 112,253 | 141,819 | 29,566 |
| 4900 Other federal revenue | - | - | 2,184 | 2,184 |
| Total revenues | <u>2,355,060</u> | <u>2,355,060</u> | <u>2,645,949</u> | <u>290,889</u> |

Northwestern Area School District 56-7
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2022

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|-------------------|-------------------|-------------------------------------|---|
| | Original | Final | | |
| Expenditures | | | | |
| 1000 Instruction | | | | |
| 1100 Regular programs: | | | | |
| 1110 Elementary | 518,075 | 518,075 | 498,488 | 19,587 |
| 1120 Jr High School | 299,100 | 299,100 | 254,381 | 44,719 |
| 1130 High School | 635,500 | 635,500 | 638,103 | (2,603) |
| 1200 Special programs: | | | | |
| 1270 Educationally deprived | 92,600 | 92,600 | 67,458 | 25,142 |
| 2000 Support services | | | | |
| 2100 Pupils: | | | | |
| 2120 Guidance | 43,075 | 43,075 | 59,662 | (16,587) |
| 2130 Health | 5,900 | 5,900 | 1,637 | 4,263 |
| 2200 Support services - instructional staff: | | | | |
| 2210 Improvement of instruction | 52,600 | 57,950 | 39,007 | 18,943 |
| 2220 Educational media | 49,800 | 49,800 | 46,070 | 3,730 |
| 2300 Support services - general administration: | | | | |
| 2310 Board of Education | 98,700 | 104,300 | 106,433 | (2,133) |
| 2320 Executive administration | 114,100 | 114,100 | 110,258 | 3,842 |
| 2400 Support services - school administration: | | | | |
| 2410 Office of the Principal | 179,050 | 185,750 | 114,357 | 71,393 |
| 2490 Other support services | - | - | 177 | (177) |
| 2500 Support services - business: | | | | |
| 2520 Fiscal services | 97,175 | 110,475 | 107,539 | 2,936 |
| 2540 Operation and maintenance of plant | 289,600 | 289,600 | 292,505 | (2,905) |
| 2550 Pupil transportation | 204,375 | 219,375 | 229,844 | (10,469) |
| 2600 Support services - central: | | | | |
| 2640 Staff | 600 | 900 | 865 | 35 |
| 3000 Community services: | | | | |
| 3700 Nonpublic school | - | - | 20,918 | (20,918) |
| 6000 Co-curricular activities | | | | |
| 6100 Male activities | 43,350 | 45,650 | 55,174 | (9,524) |
| 6200 Female activities | 42,600 | 43,725 | 65,302 | (21,577) |
| 6900 Combined activities | 47,225 | 49,425 | 148,658 | (99,233) |
| Total expenditures | <u>2,813,425</u> | <u>2,865,300</u> | <u>2,856,836</u> | <u>8,464</u> |
| Excess of Revenues over (under) Expenditures | <u>(458,365)</u> | <u>(510,240)</u> | <u>(210,887)</u> | <u>299,353</u> |
| Other Financing Sources (Uses) | | | | |
| 5110 Transfers in | 200,000 | 200,000 | - | (200,000) |
| 8110 Transfers out | (6,350) | (6,350) | (3,862) | 2,488 |
| Total other financing sources (uses) | <u>193,650</u> | <u>193,650</u> | <u>(3,862)</u> | <u>(197,512)</u> |
| Net Change in Fund Balances | (264,715) | (316,590) | (214,749) | 101,841 |
| Fund Balance - Beginning | <u>1,038,339</u> | <u>1,038,339</u> | <u>1,038,339</u> | <u>-</u> |
| Fund Balance - Ending | <u>\$ 773,624</u> | <u>\$ 721,749</u> | <u>\$ 823,590</u> | <u>\$ 101,841</u> |

Northwestern Area School District 56-7
Budgetary Comparison Schedule – Capital Outlay Fund
Year Ended June 30, 2022

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|--|---------------------|---------------------|-------------------------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| 1000 Revenue from local sources | | | | |
| 1100 Taxes: | | | | |
| 1110 Ad valorem taxes | \$ 707,000 | \$ 707,000 | \$ 704,264 | \$ (2,736) |
| 1120 Prior year's ad valorem taxes | 3,000 | 3,000 | 4,718 | 1,718 |
| 1190 Penalties and interest on taxes | 1,500 | 1,500 | 1,916 | 416 |
| 1500 Earnings on investments and deposits | 12,000 | 12,000 | (28,775) | (40,775) |
| 1900 Other revenue from local sources: | | | | |
| 1920 Contributions and donations | 4,000 | 4,000 | 6,358 | 2,358 |
| 1990 Other | - | - | 6,848 | 6,848 |
| 2000 Revenue from intermediate sources | | | | |
| 2200 Revenue in lieu of taxes | - | - | 41 | 41 |
| 4000 Revenue from federal sources | | | | |
| 4100 Grants-in-aid | | | | |
| 4150-4199 Restricted grants-in-aid received from federal government throughout the state | 150,145 | 150,145 | 147,199 | (2,946) |
| Total revenues | <u>877,645</u> | <u>877,645</u> | <u>842,569</u> | <u>(35,076)</u> |
| Expenditures | | | | |
| 1000 Instruction | | | | |
| 1100 Regular programs: | | | | |
| 1110 Elementary | 33,050 | 33,050 | 20,958 | 12,092 |
| 1120 Jr High School | 51,100 | 51,100 | 36,735 | 14,365 |
| 1130 High school | 66,075 | 103,075 | 107,050 | (3,975) |
| 2000 Support services | | | | |
| 2200 Support services - instructional staff: | | | | |
| 2220 Educational media | 9,125 | 9,125 | 3,453 | 5,672 |
| 2300 Support services - general administration: | | | | |
| 2310 Board of Education | 5,400 | 5,400 | - | 5,400 |
| 2400 Support services - school administration: | | | | |
| 2490 Other | 3,000 | 3,000 | 1,000 | 2,000 |
| 2500 Support services - business: | | | | |
| 2520 Fiscal services | 6,750 | 6,750 | 5,393 | 1,357 |
| 2540 Operation and maintenance of plant | 442,495 | 442,495 | 540,283 | (97,788) |
| 2550 Transportation | 35,000 | 35,000 | 22,299 | 12,701 |
| 2560 Food Services | 8,000 | 8,000 | - | 8,000 |
| 2590 Other | - | - | 73,000 | (73,000) |
| 5000 Debt services | 2,650 | 132,650 | 8,073 | 124,577 |
| 6000 Co-curricular activities | | | | |
| 6900 Combined activities | 15,000 | 15,800 | 20,917 | (5,117) |
| Total expenditures | <u>677,645</u> | <u>845,445</u> | <u>839,161</u> | <u>6,284</u> |
| Other Financing Sources (Uses) | | | | |
| 5124 Lease proceeds | - | - | 26,490 | 26,490 |
| 5125 Capital outlay certificates issued | - | - | 8,000,000 | 8,000,000 |
| 5130 Sale of surplus property | - | - | 1,000 | 1,000 |
| 8110 Transfers out | (200,000) | (200,000) | - | 200,000 |
| Total other financing sources (uses) | <u>(200,000)</u> | <u>(200,000)</u> | <u>8,027,490</u> | <u>8,227,490</u> |
| Net Change in Fund Balances | - | (167,800) | 8,030,898 | 8,198,698 |
| Fund Balance - Beginning | <u>2,281,788</u> | <u>2,281,788</u> | <u>2,281,788</u> | <u>-</u> |
| Fund Balance - Ending | <u>\$ 2,281,788</u> | <u>\$ 2,113,988</u> | <u>\$ 10,312,686</u> | <u>\$ 8,198,698</u> |

Northwestern Area School District 56-7
 Budgetary Comparison Schedule – Special Education Fund
 Year Ended June 30, 2022

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|-------------------|-------------------|-------------------------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| 1000 Revenue from local sources | | | | |
| 1100 Taxes: | | | | |
| 1110 Ad valorem taxes | \$ 304,475 | \$ 304,475 | \$ 302,990 | \$ (1,485) |
| 1120 Prior year's ad valorem taxes | 1,500 | 1,500 | 2,347 | 847 |
| 1190 Penalties and interest on taxes | 600 | 600 | 883 | 283 |
| 1970 Charges for services | 12,000 | 12,000 | 8,335 | (3,665) |
| 2000 Revenue from intermediate sources | | | | |
| 2200 Revenue in lieu of taxes | - | - | 18 | 18 |
| Total revenues | <u>318,575</u> | <u>318,575</u> | <u>314,573</u> | <u>(4,002)</u> |
| Expenditures | | | | |
| 1000 Instruction | | | | |
| 1200 Special programs: | | | | |
| 1220 Programs for special education | 405,675 | 405,675 | 272,398 | 133,277 |
| 2000 Support services | | | | |
| 2100 Pupils: | | | | |
| 2140 Psychological | 10,000 | 10,000 | 7,699 | 2,301 |
| 2150 Speech pathology | 22,000 | 22,000 | 18,076 | 3,924 |
| 2700 Support services - special education | | | | |
| 2710 Administrative costs | 12,525 | 12,525 | 11,918 | 607 |
| Total expenditures | <u>450,200</u> | <u>450,200</u> | <u>310,091</u> | <u>140,109</u> |
| Net Change in Fund Balances | (131,625) | (131,625) | 4,482 | 136,107 |
| Fund Balance - Beginning | <u>487,711</u> | <u>487,711</u> | <u>487,711</u> | <u>-</u> |
| Fund Balance - Ending | <u>\$ 356,086</u> | <u>\$ 356,086</u> | <u>\$ 492,193</u> | <u>\$ 136,107</u> |

Note 1 - Basis of Presentation

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

Note 2 - Budgetary Legal Requirements

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

1. Prior to the first regular School Board meeting in May of each year, the School Board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the School Board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.
6. After adoption by the School Board, the operating budget is legally binding at the fund level and actual expenditures of each fund cannot exceed the amounts budgeted for that fund, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5% of the total School District budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year. No amount of expenditures may be charged directly to the contingency line item in the budget.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Generally accepted accounting principles prescribe that budgetary information be presented for the General Fund and special revenue funds of the School District only.

Northwestern Area School District 56-7
 Schedule of School District's Share of Net Pension Liability (Asset)
 Year Ended June 30, 2022

| Pension Plan | Fiscal Year Ending | Employer's Percentage of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | Employer's Covered Payroll (b) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset) |
|--------------|-----------------------|---|---|--------------------------------------|---|--|
| SDRS | 6/30/2022 | 0.0748560% | \$ (573,268) | \$ 1,698,709 | 33.75% | 105.52% |
| SDRS | 6/30/2021 | 0.0727096% | (3,158) | 1,595,750 | 0.20% | 100.04% |
| SDRS | 6/30/2020 | 0.0735665% | (7,796) | 1,564,172 | 0.50% | 100.09% |
| SDRS | 6/30/2019 | 0.0735820% | (1,716) | 1,529,694 | 0.11% | 100.02% |
| SDRS | 6/30/2018 | 0.0736902% | (6,687) | 1,497,220 | 0.45% | 100.10% |
| SDRS | 6/30/2017 | 0.0757043% | 255,722 | 1,439,516 | 17.76% | 96.89% |
| SDRS | 6/30/2016 | 0.0783327% | (332,232) | 1,430,130 | 23.23% | 104.10% |
| SDRS | 6/30/2015 | 0.0831806% | (599,282) | 1,454,591 | 41.20% | 107.30% |

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

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

Northwestern Area School District 56-7
Schedule of Pension Contributions
Year Ended June 30, 2022

| Pension Plan | Fiscal Year Ending | Statutorily Required Contribution (a) | Contributions in Relation to the Statutorily Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | Covered Payroll (d) | Contributions as a Percentage of Covered Payroll (b/d) |
|--------------|-----------------------|--|---|---|------------------------|--|
| SDRS | 6/30/2022 | \$ 105,161 | \$ 105,161 | \$ - | \$ 1,752,679 | 6.0% |
| SDRS | 6/30/2021 | 101,913 | 101,913 | - | 1,698,709 | 6.0% |
| SDRS | 6/30/2020 | 95,745 | 95,745 | - | 1,595,750 | 6.0% |
| SDRS | 6/30/2019 | 93,851 | 93,851 | - | 1,564,172 | 6.0% |
| SDRS | 6/30/2018 | 91,782 | 91,782 | - | 1,529,694 | 6.0% |
| SDRS | 6/30/2017 | 89,834 | 89,834 | - | 1,497,220 | 6.0% |
| SDRS | 6/30/2016 | 86,371 | 86,371 | - | 1,439,516 | 6.0% |
| SDRS | 6/30/2015 | 85,808 | 85,808 | - | 1,430,130 | 6.0% |

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

Changes from Prior Valuation

The June 30, 2021 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2020 Actuarial Valuation. One change in actuarial assumptions and one plan provision changes are reflected and described below.

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

Benefit Provision Changes

Legislation enacted in 2021 reduced the minimum SDRS COLA from 0.5% to 0%. This change will impact the SDRS COLA only when inflation is very low or when a restricted maximum COLA of 0.5% is not affordable. The change had no impact on the current assets or liabilities of SDRS.

Actuarial Assumption Changes

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% (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%. That condition existed as of June 30, 2020 and the July 2021 SDRS COLA was limited to a restricted maximum of 1.41%. As of June 30, 2021, the FVFR assuming the COLA is equal to the baseline COLA assumption is greater than 100%. The July 2022 SDRS COLA will equal inflation, between 0% and 3.5%. For the June 30, 2020 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.41%. For this June 30, 2021 Actuarial Valuation, future COLAs are assumed to equal the baseline COLA assumption of 2.25%.

The change in the COLA assumption increased the Actuarial Accrued Liability by \$1,135 million, or 8.9% of the Actuarial Accrued Liability based on the 1.41% restricted maximum COLA.

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

Actuarial Method Changes

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



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

To the School Board
Northwestern Area School District 56-7
Mellette, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Northwestern Area School District 56-7 (the School District), as of and for the year then ended June 30, 2022, 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 December 27, 2022.

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of auditor’s comments as items 2022-001 and 2022-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

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

School District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the School District's response to the findings identified in our audit and described in the accompanying schedule of auditor's comments. The 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 the response.

Purpose of this Report

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

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

Aberdeen, South Dakota
December 27, 2022

Status of Prior Audit Recommendations

Finding 2021-001

There was a lack of segregation of duties that may result in internal control over financial reporting and compliance to be inadequate.

Current Status: This has not been corrected and is restated as current audit finding 2022-001.

Finding 2021-002

There was a lack of internal control in the preparation of the financial statements and footnotes and audit journal entries that may result in a misstatement of the School District's financial statements.

Current Status: This has not been corrected and is restated as current audit finding 2022-002.

Current Audit Findings and Recommendations

Material Weaknesses

Finding 2022-001 – Lack of Segregation of Duties

Condition: Northwestern Area School District 56-7 has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions, as well as reconciliation of bank accounts due to the lack of segregation of duties.

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

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

Effect: This condition increases the risk that fraud or errors might occur in the financial reporting process and not be detected and corrected on a timely basis.

Recommendation: Although it is recognized that the number of office staff may not be large enough to permit an adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the School Board exercise adequate oversight of the accounting function. We also recommend someone other than the check signor control the signature stamp of the board chair.

Management's Response: Management has assessed the cost benefit and accepts the risk associated with lack of segregation of duties in the School District.

2022-002 – Preparation of Financial Statements, Footnotes and Audit Journal Entries

Condition: Northwestern Area School District 56-7 requested the external auditors to assist in the preparation of the financial statements and related footnotes for the year ended June 30, 2022. As part of the financial statement preparation process, at times, we propose audit adjustments that are not identified as a result of the School District's existing internal controls and, therefore, could result in a misstatement of the School District's financial statements.

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

Cause: The limited size of the School District's staff and resources cause the inability to prepare the financial statements and footnotes and could cause the need for auditors to, at times, propose audit related journal entries.

Effect: This condition may affect the School District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements and the existence of auditor proposed adjustments increases the risk that financial statements misstatements may exist unidentified in the financial statements.

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit to ensure generally accepted accounting principles have been followed for each fund type, especially for transaction types infrequent in occurrence.

Management's Response: Management has assessed the cost benefit and accepts the risk associated with preparation of the final audited financial statements by the independent auditor.