

Western Dakota Technical College

**Basic Financial Statements
and Supplementary Information**

June 30, 2023

**Western Dakota Technical College
Table of Contents**

| | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 5 |
| Basic Financial Statements | |
| Statement of Net Position | 12 |
| Statement of Revenues, Expenses and Changes in Net Position | 13 |
| Statement of Cash Flows | 14 |
| Notes to Basic Financial Statements | 17 |
| Required Supplementary Information | |
| Schedule of the Proportionate Share of the Net Pension Liability (Asset) | 32 |
| Schedule of the Employer Contributions | 33 |
| Notes to the Required Supplementary Information - Schedule of the Proportionate Share of the Net Pension Liability (Asset) and Schedule of the Employer Contributions | 34 |
| Supplementary Information | |
| Schedule of Expenditures of Federal Awards | 38 |
| Notes to Schedule of Expenditures of Federal Awards | 39 |
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 41 |
| Report on Compliance with Requirements for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with the <i>Uniform Guidance</i> | 43 |
| Schedule of Findings and Questioned Costs | 46 |



Independent Auditor's Report

Board of Trustees
Western Dakota Technical College
Rapid City, South Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of Western Dakota Technical College (the "College"), as of and for the year ended June 30, 2023, and the related notes to the basic financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

In our opinion, the accompanying basic financial statements present fairly, in all material respects, the respective financial position of the business-type activities of the College, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. 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 College 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 opinion.

Responsibilities of Management for the Financial Statements

The College's management is responsible for the preparation and fair presentation of the basic 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 basic 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 College'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 College'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 College's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the College's basic financial statements. The schedule of expenditures of federal awards is required by the audit requirements by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2024, on our consideration of the College'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 College'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 College's internal control over financial reporting and compliance.

BerganKDV, LTD

Omaha, Nebraska
April 10, 2024

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**Western Dakota Technical College
Management's Discussion and Analysis
Year Ended June 30, 2023**

Western Dakota Technical College's (WDTC) Management Discussion and Analysis (MD&A) of its financial condition provides an overview of financial activity, identifies changes in financial position, and assists the reader of the financial statements in focusing on noteworthy financial issues for the year ended June 30, 2023.

While maintaining its financial health is crucial to the long term viability of WDTC, the primary mission of a public institution of higher education is to provide education and training. Therefore, net position is accumulated to ensure there are sufficient reserve funds for future operations and implementation of new programs. The MD&A provides summary level financial information; therefore, it should be read together with the accompanying financial statements.

This annual report consists of a series of basic financial statements, prepared in accordance with accounting principles generally accepted in the United States, as stated in the Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. WDTC reports as a *Business Type Activity*, public organizations that are financed in whole or in part by fees charged to external parties for goods and services. This model allows all financial information for WDTC to be reported in a comprehensive, entity-wide perspective of the College assets, liabilities, net position, revenues, expenses, and cash outflows. In preparing these statements, interfund transactions and balances between funds have been eliminated.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. In general, a public college such as WDTC will report an overall operating deficit or loss, since the financial reporting model classifies state appropriations as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The following is a condensed version of the Statement of Revenues, Expenses, and Net Position:

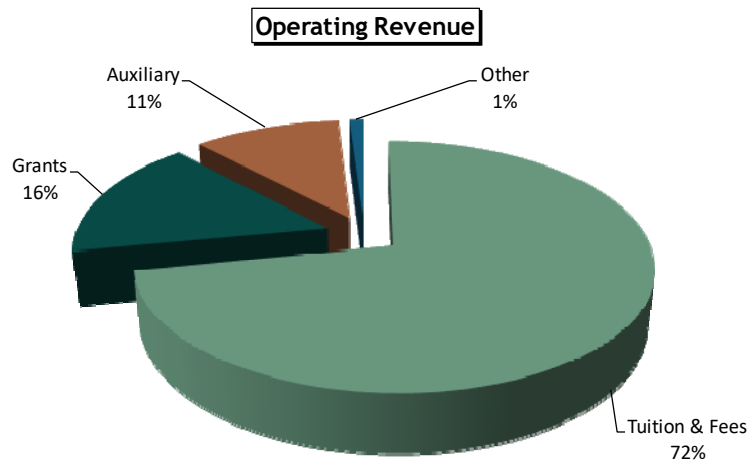
| | 2023 | 2022 |
|--------------------------------------------------------------------------|--------------|---------------|
| Operating revenue | \$ 8,058,229 | \$ 8,018,697 |
| Operating expenses | (15,662,485) | (16,918,287) |
| Net nonoperating revenues | 8,456,656 | 10,321,529 |
| Special item - transfer of operations from Rapid City School District | - | 11,341,454 |
| Changes in net position | \$ 852,400 | \$ 12,763,393 |

**Western Dakota Technical College
Management's Discussion and Analysis
Year Ended June 30, 2023**

Statement of Revenues, Expenses, and Changes in Net Position (Continued)

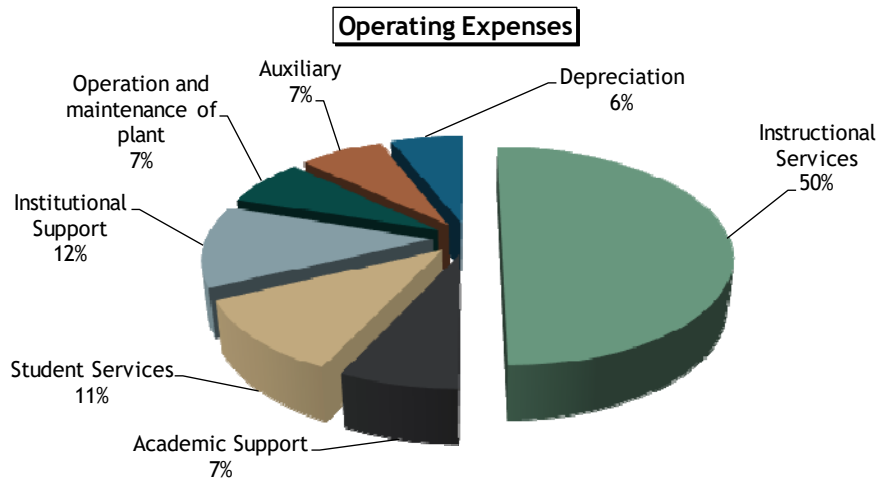
Some of the more noteworthy results of operations for the current year include:

- ◆ Operating revenues are the charges for services offered by WDTC. For the year ended June 30, 2023, WDTC generated over \$8 million of operating revenues. Significant items and revenue sources are:
 - ◇ Total revenue from program, materials, and other student fees was approximately \$8.1 million. This is a slight increase compared to the prior year.
 - ◇ The graph below depicts WDTC's operating revenue by source:



- ◆ Operating expenses are costs related to offering the programs of WDTC. For the year ended June 30, 2023, operating expenses totaled almost \$15.7 million. This is a decrease of about \$1.25 million or 7.4% from the prior year and is primarily a result of less pandemic-related payments to students. The majority of WDTC's expenses, about 64%, are for personnel-related costs. Other major types of expenses include professional services, maintenance, and supplies at 19%. Expenses such as travel, rentals, utilities, depreciation, and other expenses account for the remaining 17% of total operating expenses.

The graph below categorizes operating expenses by function:



**Western Dakota Technical College
Management's Discussion and Analysis
Year Ended June 30, 2023**

Statement of Revenues, Expenses, and Changes in Net Position (Continued)

- ◆ Nonoperating revenue and expenses are items not directly related to providing instruction. Net nonoperating revenue for the year ended June 30, 2023 was \$8.5 million. The most significant components of net nonoperating revenue include:
 - ◇ State operating appropriations accounting for approximately \$6 million in revenue for the year ended June 30, 2023. This is an increase of approximately 24.5% from the prior year.
 - ◇ Federal grants and contracts represent \$3.1 million, a decrease of 64.4% from prior year, due to depleted pandemic-related funding.
- ◆ Net position at June 30, 2023, was \$13.0 million as a result of the above activity. This is a slight increase of \$852 thousand from the prior year.

Statement of Cash Flows

The statement of cash flows presents information related to cash inflows and outflows, summarized by operating, noncapital and capital financing, and investing activities. This statement is important in evaluating WDTC's ability to meet financial obligations as they mature.

The following schedule shows major components of the Statement of Cash Flows:

| | 2023 | 2022 |
|-------------------------------------------------------------------------|----------------|----------------|
| Net cash used in operating activities | \$ (7,060,189) | \$ (8,285,026) |
| Net cash provided by noncapital financing | 8,330,182 | 10,728,489 |
| Net cash provided by (used in) capital and related financing activities | (841,972) | (1,025,925) |
| Net cash provided by (used in) investing activities | (5,404,440) | - |
| Net increase (decrease) in cash and cash equivalents | \$ (4,976,419) | \$ 1,417,538 |

Specific items of interest related to the Statement of Cash Flows includes:

- ◆ The largest component of cash used in operating activities was payments to employees for salaries/wages and benefits, which is increased from the prior year. Just over \$10.2 million was paid in FY 2023.
- ◆ Another significant component of operating cash flows was payments to suppliers. This cash outflow of approximately \$3 million represents the cost of doing business as a public college.
- ◆ The largest cash inflows from operating activities included approximately \$5.5 million in tuition and fees, an increase of 5.7% from the prior year, and about \$1.3 million in state, private, and federal grants.
- ◆ State appropriations are categorized as cash flows from noncapital financing activities. This is an income of approximately \$6 million of positive cash flow.
- ◆ The cash used in capital and related financing activities is primarily made up of purchases of capital assets.

**Western Dakota Technical College
Management's Discussion and Analysis
Year Ended June 30, 2023**

Statement of Cash Flows (Continued)

- ◆ Investment income - Comprised of a combination of various amortizing CDs and treasury bills, 2023 was the first year that WDTC purchased investments since divesting from the Rapid City School District.

Statement of Net Position

The statement of net position includes all assets (items owned by WDTC and amounts owed to WDTC by others) and liabilities (amounts owed to others by WDTC and what has been collected from others for which a service has not yet been performed). This statement is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided, and expenses and liabilities are recognized when others provide the service to WDTC - regardless of when cash is exchanged.

Below are highlights of the components of the Statement of Net Position:

| | 2023 | 2022 |
|---------------------------------------|----------------------|----------------------|
| Assets | | |
| Cash and investments | \$ 9,091,410 | \$ 8,536,915 |
| Net capital assets | 3,576,572 | 3,689,136 |
| Other assets | 729,405 | 890,520 |
| Total assets | 13,397,387 | 13,116,571 |
| Deferred Outflows of Resources | 2,623,450 | 2,577,580 |
| Liabilities | | |
| Current liabilities | 618,740 | 385,619 |
| Long term liabilities | 872,292 | 1,015,442 |
| Total liabilities | 1,491,032 | 1,401,061 |
| Deferred Inflows of Resources | 1,529,697 | 1,529,697 |
| Net Position | | |
| Net investment in capital assets | 3,576,572 | 3,689,136 |
| Restricted - pension | 1,120,054 | 1,074,184 |
| Unrestricted | 8,303,482 | 8,000,073 |
| Total net position | \$ 13,000,108 | \$ 12,763,393 |

**Western Dakota Technical College
Management's Discussion and Analysis
Year Ended June 30, 2023**

Statement of Net Position (Continued)

As shown above, the largest non-cash component of WDTC's assets is capital assets. Total cost of capital assets net of accumulated depreciation at June 30, 2023, was approximately \$3.6 million.

- ◆ The other assets category is primarily made up of various receivables balances, the largest being State grants of approximately \$242 thousand.
- ◆ Current liabilities include unearned revenue (\$14 thousand), accounts payable, and various types of payroll and sales tax accruals (approximately \$494 thousand).
- ◆ Long term liabilities are mainly composed of \$826 thousand of compensated absences, and a 0% interest loan from South Dakota Department of Energy and Natural Resources of \$46 thousand - used to upgrade interior and exterior lighting to more energy-efficient LED units. The State amortized the principal repayments over 10 years to match the anticipated energy cost savings to be obtained.

Capital Assets

WDTC's investment in capital assets as of June 30, 2023, amounts to \$3.6 million (net of accumulated depreciation). This includes furnishings, fixtures, and equipment that was transferred from RCAS upon separation. Information on WDTC's capital assets can be found in Note 3.

Financial Position

For the year ended June 30, 2023, WDTC's financial position improved with an increase in net position of \$851 thousand. WDTC has diversified sources of revenue consisting of student fees, state aid, federal and state grants, and private funding. With this diversity of revenues along with a strong commitment to operating efficiently, WDTC will continue to have the resources available to adequately finance enrollments in the future.

Economic Factors

WDTC continues to achieve financial stability and is confident that its financial and economic position will remain stable. The following economic factors contribute to this outlook:

- ◆ Rapid City region that WDTC serves is one of the fastest growing metro area in the Midwest, more than double the national average.
- ◆ Graduates from the technical careers that WDTC offers are in high demand by employers in the immediate region and the entire Midwest area.
- ◆ Expansion of Ellsworth Air Force base, located in nearby Box Elder, and the construction of the new State Women's Prison in Rapid Valley, will bring thousands of new residents to this area within the next several years.

Although WDTC enjoys a strong financial position, some financial realities still remain that have the potential to negatively impact WDTC:

- ◆ Job availability in technical fields with little to no experience or education requirements.
- ◆ Decreasing availability of affordable rental housing for current and future students.
- ◆ Higher costs of maintaining competitive salaries, benefits, and cutting edge curriculum in academic programs.

**Western Dakota Technical College
Management's Discussion and Analysis
Year Ended June 30, 2023**

Economic Factors (Continued)

To address these pressure points and help WDTC maintain and/or improve its financial position, WDTC has taking the following steps:

- ◆ Implementing and designing on and off-campus student housing options, partnering with the WDTC Foundation, to increase enrollment of out-of-area applicants.
- ◆ Developed a new 10 year strategic plan to focus talent and resources on increasing enrollment over 75%, to 4000 full time students annually.

BASIC FINANCIAL STATEMENTS

Western Dakota Technical College
Statement of Net Position
June 30, 2023

Assets

Current assets

| | |
|-----------------------------------|--------------|
| Cash and cash equivalents | \$ 3,560,496 |
| Investments | 5,530,914 |
| Grants and agencies receivable | 242,334 |
| Students accounts receivable, net | 49,753 |
| Other receivables | 38,404 |
| Inventories | 112,922 |
| Prepaid expenses and other assets | 254,691 |
| Total current assets | 9,789,514 |

Non-current assets

| | |
|--------------------------|-----------|
| Right-of-use asset | 5,000 |
| Capital assets, net | 3,576,572 |
| Total non-current assets | 3,581,572 |

Restricted assets

| | |
|-------------------------|--------|
| Net pension asset | 26,301 |
| Total restricted assets | 26,301 |

Total assets

13,397,387

Deferred Outflows of Resources

| | |
|--------------------------------------|-----------|
| Pension-related deferred outflows | 2,623,450 |
| Total deferred outflows of resources | 2,623,450 |

Liabilities

Current liabilities

| | |
|------------------------------------------------|---------|
| Accounts payable | 145,890 |
| Accrued liabilities | 447,780 |
| Unearned revenue | 14,324 |
| Current portion of leases liability | 5,000 |
| Current portion of notes from direct borrowing | 5,746 |
| Total current liabilities | 618,740 |

Non-current liabilities

| | |
|-----------------------------------------------------|---------|
| Notes from direct borrowing, net of current portion | 45,965 |
| Compensated absences | 826,327 |
| Total non-current liabilities | 872,292 |

Total liabilities

1,491,032

Deferred Inflows of Resources

| | |
|-------------------------------------|-----------|
| Pension-related deferred inflows | 1,529,697 |
| Total deferred inflows of resources | 1,529,697 |

Net position

| | |
|----------------------------------|---------------|
| Net investment in capital assets | 3,576,572 |
| Restricted - pension | 1,120,054 |
| Unrestricted | 8,303,482 |
| Total net position | \$ 13,000,108 |

**Western Dakota Technical College
Statement of Revenues, Expenses
and Changes in Net Position
For the Year Ended June 30, 2023**

| | |
|-------------------------------------------------------|----------------------|
| Operating Revenues | |
| Net tuition and fees | \$ 5,779,424 |
| Non-governmental grants and contracts | 1,312,794 |
| Sales of auxillary services | 909,864 |
| Other sources | 56,147 |
| Total operating revenues | <u>8,058,229</u> |
| Operating Expenses | |
| Instructional | 7,742,576 |
| Academic support | 1,154,351 |
| Student services | 1,689,668 |
| Institutional support | 1,854,963 |
| Operation and maintenance of plant | 1,146,797 |
| Auxiliary services | 1,125,340 |
| Depreciation and amortization | 948,790 |
| Total operating expenses | <u>15,662,485</u> |
| Operating loss | <u>(7,604,256)</u> |
| Non-Operating Revenues (Expenses) | |
| Governmental appropriations | |
| State sources | 6,044,210 |
| Governmental grants and contracts | |
| Federal sources | 2,188,607 |
| Gifts | 97,365 |
| Investment income | 126,474 |
| Net non-operating revenues (expenses) | <u>8,456,656</u> |
| Change in Net Position | <u>852,400</u> |
| Net position, beginning of year, as previously stated | 12,763,393 |
| Prior period adjustment | <u>(615,685)</u> |
| Net position, beginning of year, restated | <u>12,147,708</u> |
| Net position, end of year | <u>\$ 13,000,108</u> |

Western Dakota Technical College
Statement of Cash Flows
For the Year Ended June 30, 2023

| | |
|---------------------------------------------------------|---------------------|
| Cash Flows from Operating Activities | |
| Tuition and fees | \$ 5,485,586 |
| Grants and contracts | 1,330,420 |
| Payments for personnel services | (7,989,061) |
| Payments for other operating expenses | (5,706,348) |
| Auxiliary enterprises | 909,864 |
| Other receipts (payments) | (1,090,650) |
| Net cash used in operating activities | <u>(7,060,189)</u> |
| Cash Flows from Noncapital Financing Activities | |
| State sources | 6,044,210 |
| Federal sources | 2,285,972 |
| Student loan receipts | 3,719,869 |
| Student loan disbursements | (3,719,869) |
| Net cash provided by noncapital financing activities | <u>8,330,182</u> |
| Cash Flows from Capital and Financing Activities | |
| Payments on capital debt | (5,746) |
| Purchases of capital assets | (836,226) |
| Net cash used in capital and financing activities | <u>(841,972)</u> |
| Cash Flows from Investing Activities | |
| Interest received on investments | 126,474 |
| Net maturity (purchase) of investments | (5,530,914) |
| Net cash used in investing activities | <u>(5,404,440)</u> |
| Net change in cash and cash equivalents | (4,976,419) |
| Cash and Cash Equivalents | |
| Beginning of year | <u>8,536,915</u> |
| End of year | <u>\$ 3,560,496</u> |

Western Dakota Technical College
Statement of Cash Flows
For The Year Ended June 30, 2023

Reconciliation of net operating loss
to net cash used in operating activities

| | |
|----------------------------------------------------------------------------------|------------------------------|
| Operating loss | <u>\$ (7,604,256)</u> |
| Adjustments to reconcile operating loss to net cash used in operating activities | |
| Depreciation and amortization | 948,790 |
| Changes in operating assets and liabilities | |
| Accounts receivable (net) | 27,501 |
| Inventories | 155,843 |
| Prepaid expense | (35,827) |
| Accounts payable | (2,042) |
| Accrued liabilities | 335,514 |
| Deferred revenue | (303,713) |
| Compensated absences | (137,404) |
| Pension related activity | (444,595) |
| Total adjustments | <u>544,067</u> |
| Net cash used in operating activities | <u><u>\$ (7,060,189)</u></u> |

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**Western Dakota Technical College
Notes to Basic Financial Statements**

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Introduction

Western Dakota Technical College (the "College" or "WDTC"), a South Dakota two-year technical college, is a political subdivision operating under the applicable laws and regulations of the State of South Dakota. WDTC is fully accredited by the Higher Learning Commission. WDTC offers one and two-year degrees, technical certificates, and a comprehensive adult education program.

WDTC is governed by a nine-member Board of Trustees initially appointed by the Rapid City School Board from within the service area. The Board has the authority to hire and evaluate the College President, guide the strategic direction, execute contracts, and provide oversight of fiscal matters.

B. Financial Reporting Entity

The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by generally accepted accounting principles in the United States of America, the financial reporting entity includes both the primary government and all of its component units as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity." An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate basic financial statements. The College is not a component unit of another primary government reporting entity.

The WDTC Foundation is not considered a component unit of the College. It is governed by a separate Board of Advisors and manages its own fiscal matters. The Foundation is not obligated to provide any support to WDTC. The Foundation has a history of supporting WDTC with its economic resources for the benefit of both WDTC and its students. WDTC provides office space, employee compensation and benefits, and other operating costs to the Foundation. Separately issued financial statements of the Foundation may be obtained from the Foundation Director at 605-718-2400.

C. Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All significant intrafund transactions have been eliminated. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting", the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

D. Basis of Presentation

The accompanying financial statements are presented in accordance with generally accepted accounting principles in the United States of America as prescribed by the GASB.

Pursuant to the provisions of GASB Statement No. 34, "Basic Financial Statements Management's Discussion and Analysis for State and Local Governments", as amended by GASB Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities", the full scope of the College's activities is considered to be a single business-type activity (BTA) and, accordingly, is reported within a single column in the financial statements.

**Western Dakota Technical College
Notes to Basic Financial Statements**

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Cash Equivalents

For purposes of the statements of cash flows, the College considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

F. Receivables

Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

Amounts outstanding longer than the agreed upon payment terms are considered past due. WDTC determines its allowance for doubtful accounts by considering a number of factors including length of time amounts are past due, previous loss history, and the student's ability to pay his or her obligation. WDTC writes off receivables when they become uncollectible.

G. Inventories

Inventories are valued at the lower-of-cost or market value as determined by the first-in, first-out (FIFO) method. Nearly all inventory relates to the bookstore.

H. Capital Assets

Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following estimated useful lives are used to compute depreciation:

| | |
|-----------|------------|
| Equipment | 3-15 years |
|-----------|------------|

WDTC operates in facilities (land and buildings) that are owned and were constructed with debt proceeds issued by the South Dakota Health and Education Facilities Authority (SD HEFA). HEFA then leased the site to the South Dakota Department of Education, which then sub-leased to WDTC for a 50-year period. The sub-lease agreement calls for payments made by WDTC by collecting a per-credit 'facility fee' from each student, at a rate set annually by the State Board of Education. It is anticipated that these fees will be sufficient to make the debt payments throughout the term of the lease. As of June 30, 2023, this rate was \$36 per credit and \$0.45 per clock hour for non-credit courses.

I. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of assets position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses) until then. At this time, WDTC reports deferred outflows of resources related to the South Dakota Retirement System (SDRS), which represent WDTC's proportionate shares of collective deferred outflows of resources of the plans.

Western Dakota Technical College
Notes to Basic Financial Statements

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the Statement of Net Position will report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents the acquisition of assets position that applies to a future period and so will not be recognized as an inflow of resources (revenues) until that time. At this time, WDTC reports deferred inflows of resources related to the South Dakota Retirement System (SDRS), which represent WDTC's proportionate shares of collective deferred inflows of resources of the plans.

J. Compensated Absences

Vacation and personal leave meet the criteria in GASB Statement No. 16 and are included in accrued salaries. The criteria for accruing compensated absences are met when employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees through paid time off or some other means, such as cash at termination or retirement.

K. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is presented in three major categories. The first is net investment in capital assets, which represents the College's equity in property, plant, and equipment. The second is restricted. The third is unrestricted, including amounts designated by the board.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The College first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

L. Scholarship Allowances

Student tuition and fees revenues and certain other revenues from institutional charges are reported net of scholarship allowances in the accompanying statement of revenues, expenses, and changes in net assets. The scholarship allowances are the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or non-operating revenues in the accompanying statement of revenues, expenses, and changes in net position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship allowance.

**Western Dakota Technical College
Notes to Basic Financial Statements**

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Revenue and Expense Recognition

The College presents its revenues and expenses as operating or non-operating based on recognition definitions from GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." Operating activities are those activities that are necessary and essential to the mission of the College. Operating revenues include all charges to customers, grants received for student financial assistance, and interest earned on loans. Grants received from sources other than governmental entities for student financial assistance are considered operating revenues because they provide resources for student charges and such programs are necessary and essential to the mission of the College. Revenues from non-exchange transactions and state appropriations that represent subsidies or gifts to the College, as well as investment income, are considered non-operating since these are investing, capital or noncapital financing activities. Operating expenses are all expense transactions incurred other than those related to investing, capital, or noncapital financing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor non-operating activities and are presented after non-operating activities on the accompanying statement of revenues, expenses, and changes in net position.

N. Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates

O. Right-to-use Lease Assets/Lease Liabilities

The College recorded right-to-use lease assets as a result of implementing GASB Statement No. 87, Leases. The right-to-use lease assets are initially measured at an amount equal to the initial measurement of the lease liability plus any payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right-to-use assets are amortized on a straight-line basis over the life of the related lease.

The College uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the College determines its estimated borrowing rate based on the applicable State and Local Government Securities rate. The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase options the College is reasonably certain to exercise.

The College monitors changes in circumstances that would require a re-measurement of the leases and will remeasure the right-to-use lease assets and liabilities if certain changes occur that are expected to significantly affect the amount of the lease liability.

**Western Dakota Technical College
Notes to Basic Financial Statements**

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. 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. College contributions and net pension liability (asset) are recognized on an accrual basis of accounting.

NOTE 2 - DEPOSITS AND INVESTMENTS

Statutes authorize the College to invest in securities of the United States either directly or indirectly including US Treasury Bills, notes, bonds, and other obligations guaranteed by the United States government; and such securities shall either mature or be redeemable at the option of the holder within eighteen months from date of purchase.

Deposits and investments consisted of the following at June 30, 2023:

| | |
|------------------------------------------------------------|--------------------------------|
| Cash and cash equivalents | \$ 3,560,496 |
| Investments - Treasury Bill (Maturity 8/2023) | 763,635 |
| Investments - Treasury Notes (Maturity 12/2023 and 1/2024) | <u>4,767,279</u> |
| Total | <u><u>\$ 9,091,410</u></u> |

Deposits were reflected in the accounts of the bank in the amount of \$2,738,798 as of June 30, 2023. The entire bank balance was fully collateralized by an irrevocable letter of credit.

The College 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 fair value of the assets.

Assets and liabilities are classified into one of the following categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. All of the College's investments, as of June 30, 2023, are categorized as level 2 investments.

The College attempts to mitigate the following types of deposit and investment risks through compliance with the State Statutes referred to above. The three types of deposit and investment risks are the following:

**Western Dakota Technical College
Notes to Basic Financial Statements**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk: This is for deposits and investments; custodial credit risk is the risk that in the event of the failure of a bank or other counterparty, the College will not be able to recover the value of its deposits or investments or collateral securities in the possession of a third-party.

Credit Risk: This is for deposits and investments; credit risk is the risk that a bank or other counterparty defaults on its principal and/or interest payments owed to the College.

Interest Rate Risk: This is for deposits and investments; interest rate risk is the risk that the value of deposits and investments will decrease as a result of a rise in interest rates.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2023, was as follows:

| | <u>June 30, 2022</u> | <u>Additions</u> | <u>Deletions</u> | <u>June 30, 2023</u> |
|----------------------------------|----------------------|---------------------|------------------|----------------------|
| Capital assets being depreciated | | | | |
| Equipment | \$ 11,005,154 | \$ 836,226 | \$ (458,442) | \$ 11,382,938 |
| Total | <u>11,005,154</u> | <u>836,226</u> | <u>(458,442)</u> | <u>11,382,938</u> |
| Less accumulated depreciation | | | | |
| Equipment | 7,316,018 | 948,790 | (458,442) | 7,806,366 |
| Total | <u>7,316,018</u> | <u>948,790</u> | <u>(458,442)</u> | <u>7,806,366</u> |
| Capital assets, net | <u>\$ 3,689,136</u> | <u>\$ (112,564)</u> | <u>\$ -</u> | <u>\$ 3,576,572</u> |

NOTE 4 - ACCRUED LIABILITIES

Accrued liabilities for the fiscal year ended June 30, 2023, were composed of the following:

| | |
|--------------------------|-------------------|
| Accrued salaries | \$ 444,614 |
| Other payroll deductions | 3,166 |
| Total | <u>\$ 447,780</u> |

NOTE 5 - NOTE PAYABLE

Notes from direct borrowing activity for the year ended June 30, 2023, was as follows:

| | <u>June 30, 2022</u> | <u>Additions</u> | <u>Deletions</u> | <u>June 30, 2023</u> | <u>Current Portion</u> |
|-----------------------------|----------------------|------------------|------------------|----------------------|----------------------------|
| Notes from direct borrowing | | | | | |
| State energy loan | \$ 57,457 | \$ - | \$ 5,746 | \$ 51,711 | \$ 5,746 |
| Total | <u>\$ 57,457</u> | <u>\$ -</u> | <u>\$ 5,746</u> | <u>\$ 51,711</u> | <u>\$ 5,746</u> |

**Western Dakota Technical College
Notes to Basic Financial Statements**

NOTE 6 - RETIREMENT PLAN

A. 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 hybrid defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' 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 <http://www.sdrs.sd.gov/publications/asp.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

B. Benefits Provided

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

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

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

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

- ◆ Baseline actuarial liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%
- ◆ If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities the COLA will be:
 - ◇ The increase in the 3rd Quarter CPI-W, no less than 0.5% and no greater than 3.5%

**Western Dakota Technical College
Notes to Basic Financial Statements**

NOTE 6 - RETIREMENT PLAN (CONTINUED)

B. Benefits Provided (Continued)

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

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

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

C. 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 College's share of contributions to the SDRS for the fiscal years ended June 30, 2023, 2022 and 2021, were \$445,322, 398,725, and 380,105, respectively, equal to the required contributions for the year.

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

At June 30, 2022, SDRS is 100.1% funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of the South Dakota Retirement System, for the College as of the measurement period ending June 30, 2022, and reported by the College as of June 30, 2023, are as follows:

| | |
|------------------------------------------------------------------------|---------------------------|
| Proportionate share of pension asset | \$ 39,286,834 |
| Less Proportionate share of net pension restricted for pension benefit | <u>(39,313,135)</u> |
| Proportionate share of net pension liability (asset) | <u><u>\$ (26,301)</u></u> |

At June 30, 2023, the College reported a liability (asset) of \$(26,301) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2022, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the College's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2022, the College's proportion was 0.27830200% which is the same as what was used for the Colleges June 30, 2022 financial statements.

For the year ended June 30, 2023, the College recognized pension expense (reduction of pension expense) of \$(5,103).

**Western Dakota Technical College
Notes to Basic Financial Statements**

NOTE 6 - RETIREMENT PLAN (CONTINUED)

D. Pension Liabilities (Assets), Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions (Continued)

At June 30, 2023, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|----------------------------------------------------------------------------------|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 500,665 | \$ 1,707 |
| Net difference between projected and actual earnings on pension plan investments | - | 63,030 |
| Changes of assumptions | 1,671,629 | 1,464,960 |
| Changes in proportion | 5,834 | - |
| Contributions subsequent to the measurement date | 445,322 | - |
| | \$ 2,623,450 | \$ 1,529,697 |
| Total | \$ 2,623,450 | \$ 1,529,697 |

The \$445,322 is reported as deferred outflow of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a change to the net pension asset in the year ending June 30, 2024.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

| Year Ended June 30, | | |
|------------------------|--|-------------------|
| 2024 | | \$ 175,220 |
| 2025 | | 367,660 |
| 2026 | | (415,679) |
| 2027 | | 521,230 |
| | | 521,230 |
| Total | | \$ 648,431 |

**Western Dakota Technical College
Notes to Basic Financial Statements**

NOTE 6 - RETIREMENT PLAN (CONTINUED)

E. Actuarial Assumptions

The total pension liability (asset) in the June 30, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

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

Mortality Rates:

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

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

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

**Western Dakota Technical College
Notes to Basic Financial Statements**

NOTE 6 - RETIREMENT PLAN (CONTINUED)

E. Actuarial Assumptions (Continued)

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---------------|-------------------|----------------------------------------------|
| Global equity | 58.0 % | 3.7 % |
| Fixed income | 30.0 | 1.1 |
| Real estate | 10.0 | 2.6 |
| Cash | 2.0 | 0.4 |
| Total | <u>100.0 %</u> | |

F. Discount Rate

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

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

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

| | 1% Decrease in Discount Rate | Current Discount Rate | 1% Increase in Discount Rate |
|-----------------------------------------------------------------------|---------------------------------|--------------------------|---------------------------------|
| College's Proportionate Share of the Net Pension Liability (Asset) | \$ 5,461,220 | \$ (26,301) | \$ (4,511,056) |

H. Pension Plan Fiduciary Net Position

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

NOTE 7 - LEASES

The College has lease agreements for equipment and classroom space with remaining lease terms maturing in the next fiscal year.

**Western Dakota Technical College
Notes to Basic Financial Statements**

NOTE 7 - LEASES (CONTINUED)

Future minimum lease payments under non-cancellable leases are as follows as of June 30, 2023:

| | Operating |
|------|-----------|
| 2024 | \$ 5,000 |

Cash paid for leases for the year ended June 30, 2023, was \$18,598.

NOTE 8 - CONTINGENCIES

From time to time, WDTC is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of administration and legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on WDTC's financial position or results of operation.

Expenditures under government programs are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable, the College will record such disallowance at the time the determination is made. Management believes there is no material impact to the financial statements that would occur as a result of such reviews.

NOTE 9 - EXPENSE CLASSIFICATION

Expenses on the statements of revenue, expenses, and changes to net position are classified by function. Alternatively, the expenses could also be shown by type of expenses as follows for the year ended June 30, 2023:

| | |
|-----------------------|---------------|
| Salaries and benefits | \$ 9,900,278 |
| Supplies and services | 3,068,071 |
| Utilities | 366,630 |
| Depreciation | 948,790 |
| Other expenses | 1,378,716 |
| Total | \$ 15,662,485 |

NOTE 10 - RELATED PARTIES

The College is the beneficiary of a Foundation which provides support for the College by way of scholarships and other direct resources. The College contracts to provide the Foundation with limited services and office space without charge in exchange for the support the College receives. Scholarships and other direct resources provided by the Foundation are remitted to the College.

NOTE 11 - RISK MANAGEMENT

The College is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for employee group health and accident benefits. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**Western Dakota Technical College
Notes to Basic Financial Statements**

NOTE 12 - PRIOR PERIOD ADJUSTMENT

During the year, the College identified federal funds which were drawn down during the prior fiscal year but actually related to tuition assistance in the year ended June 30, 2023. A prior period adjustment in the amount of \$216,960 has been reported to recognize those federal fund receipts in the year ended June 30, 2023. This resulted in a decrease in beginning net position.

During the year, the College identified the prior year deferred outflow of resources related to the pension plan was overstated by \$398,725. The college included contributions made during the year ended June 30, 2022, in pension related deferred outflows of resources and used the measurement date of June 30, 2022 to calculate the College's proportionate share of the pension asset, pension related deferred outflows and inflows of resources to the plan. A prior period adjustment in the amount of \$398,725 has been reported to decrease beginning net position.

NOTE 13 - SUBSEQUENT EVENTS

In preparing the financial statements, the College has evaluated events and transactions for potential recognition or disclosure through April 10, 2024, the date these financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

Western Dakota Technical College
Schedule of the Proportionate Share of the Net pension Liability (Asset)
South Dakota Retirement System

| For Plan's Fiscal Year Ended June 30, | WDT's Proportion (Percentage) of the Net Pension Liability (Asset) | WDT's Proportionate Share (Amount) of the Net Pension Liability (Asset) | District's Covered Payroll | WDT's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset) |
|---------------------------------------------|--------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| 2022 | 0.278302% | \$ (26,301) | \$ 6,645,417 | -0.40% | 100.10% |
| 2023 | 0.278302% | (26,301) | 6,645,417 | -0.40% | 100.10% |

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is June 30, 2022 for both June 30, 2022 and 2023.

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

**Western Dakota Technical College
Schedule of the Employer Contributions
South Dakota Retirement System**

| <u>For Fiscal Year Ended June 30,</u> | <u>Contractually Required Contribution</u> | <u>Contributions in Relation to the Statutorily Required Contributions</u> | <u>Contribution Deficiency (Excess)</u> | <u>District's Covered Payroll</u> | <u>Contributions as a Percentage of Covered Payroll</u> |
|-------------------------------------------|----------------------------------------------------|--------------------------------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------|-------------------------------------------------------------------------|
| 2022 | \$ 398,725 | \$ 398,725 | \$ - | \$ 6,645,417 | 6.00% |
| 2023 | 445,322 | 445,322 | - | 7,422,033 | 6.00% |

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

**Western Dakota Technical College
Notes to Required Supplementary Information
Schedule of the Proportionate Share of the
Net Pension Asset and Schedule of Pension Contributions
South Dakota Retirement System**

NOTE 1 - CHANGES FROM PRIOR VALUATION

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

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

NOTE 2 - BENEFIT PROVISION CHANGES

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

NOTE 3 - ACTUARIAL ASSUMPTION CHANGES

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

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

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

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

**Western Dakota Technical College
Notes to Required Supplementary Information
Schedule of the Proportionate Share of the
Net Pension Asset and Schedule of Pension Contributions
South Dakota Retirement System**

NOTE 3 - ACTUARIAL ASSUMPTION CHANGES (CONTINUED)

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

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

Actuarial assumptions are reviewed for reasonability annually and reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2027, Actuarial Valuation and any recommended 7 changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2027, Actuarial Valuation.

NOTE 4 - ACTUARIAL METHOD CHANGES

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

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SUPPLEMENTARY INFORMATION

Western Dakota Technical College
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

| Federal Grantor/Pass-through Grantor Program Title | Federal Assistance Listing Number | Federal Expenditures |
|-------------------------------------------------------------------------------|-----------------------------------|----------------------|
| U.S. Department of Education | | |
| Student Financial Assistance Cluster | | |
| Federal Pell Grant Program | 84.063 | \$ 1,789,973 |
| Federal Work-Study Program | 84.033 | 40,319 |
| Federal Direct Student Loans | 84.268 | 3,693,788 |
| Federal Supplemental Educational Opportunity Grants | 84.007 | 67,254 |
| Total Student Financial Assistance Cluster | | <u>5,591,334</u> |
| Education Stabilization Fund - Higher Education Emergency Relief Fund (HEERF) | | |
| COVID-19 - Education Stabilization Fund - HEERF Institutional Aid Portion | 84.425F | 218,326 |
| Career and Technical Education | 84.048 | 746,987 |
| U.S. Environmental Protection Agency | | |
| P3 Award: National Student Design Competition for Sustainability | 66.516 | 14,169 |
| U.S. Department of Agriculture | | |
| Specialty Crop Block Grant Program | 10.170 | 11,825 |
| U.S. Department of Health and Human Services | | |
| Area Health Education Centers | 93.107 | 307,985 |
| Grants to States for Operation of Offices of Rural Health | 93.913 | 6,000 |
| Total U.S. Department of Health and Human Services | | <u>313,985</u> |
| U.S. General Services Administration | | |
| Pass-through Programs From | | |
| SD Federal Property Agency | | |
| Donation of Federal Surplus Personal Property | 39.003 | 178 |
| Total expenditures of federal awards | | <u>\$ 6,896,804</u> |

Western Dakota Technical College
Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, or other applicable regulatory guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The College has opted to use the de minimis rate, however, they have not had any grants where they would have applied the 10% rate.

NOTE 3 - SUBRECIPIENTS

The College provided no federal awards to subrecipients.

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**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***

Independent Auditor's Report

Board of Trustees
Western Dakota Technical College
Rapid City, 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 business-type activities of Western Dakota Technical College (the "College") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated April 10, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) as a basis for designing 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 College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College'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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College'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*.

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.

Bergan KDV, LTD

Omaha, Nebraska
April 10, 2024



**Report on Compliance for Each Major Federal Program
and Report on Internal Control over Compliance in Accordance with
the Uniform Guidance**

Independent Auditor's Report

Board of Trustees
Western Dakota Technical College
Rapid City, South Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Western Dakota Technical College's (the "College") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2023. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the College's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the College's compliance with the requirements of each major federal program as a whole.

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

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

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

Report on Internal Control Over Compliance

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

Report on Internal Control Over Compliance (Continued)

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

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

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

Bergan KDV, LTD

Omaha, Nebraska
April 10, 2024

**Western Dakota Technical College
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

| | |
|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Type of auditors' report issued: | We issued an unmodified opinion on the fair presentation of the financial statements of the business-type activities in accordance with accounting principles generally accepted in the United States of America (GAAP). |
|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

| | |
|--------------------------------------------|-----------------------------|
| Internal Control over financial reporting: | |
| ◆ Material weakness(es) identified? | Yes, Audit finding 2023-001 |
| ◆ Significant deficiency(ies) identified? | None reported |

| | |
|-------------------------------------------------------|----|
| Noncompliance material to financial statements noted? | No |
|-------------------------------------------------------|----|

Federal Awards

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

| | |
|-------------------------------------------|---------------|
| Internal control over major programs: | |
| ◆ Material weakness(es) identified? | No |
| ◆ Significant deficiency(ies) identified? | None reported |

| | |
|------------------------------------------------------------------------------------------------------------------------|----|
| Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance Section 200.516? | No |
|------------------------------------------------------------------------------------------------------------------------|----|

Identification of Major Programs

| | |
|--------------------------------|--------------------------------------|
| Assistance Listing No.: | 84.007, 84.033, 84.063, 84.268 |
| Student Financial Aid Cluster: | Student Financial Assistance Cluster |

| | |
|--------------------------------------------------------------------------|-----------|
| Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
|--------------------------------------------------------------------------|-----------|

| | |
|----------------------------------------|----|
| Auditee qualified as low risk auditee? | No |
|----------------------------------------|----|

**Western Dakota Technical College
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

SECTION II - FINANCIAL STATEMENTS AUDIT FINDING

2023-001 Material Weakness - Year-End Financial Reporting

Criteria:

Management is responsible for achieving appropriate financial reporting objectives, including maintaining complete accounting records and preparing financial statements in accordance with accounting principles generally accepted in the United States of America.

Condition:

Material proposed journal entries were needed to adjust net position to be materially correct for financial reporting. Management also needed assistance with preparing the financial statements to be in compliance with financial reporting standards.

Effect or Potential Effect:

Intentional and unintentional errors could be made and not detected within a timely period by the College's personnel in the normal course of performing their assigned functions since they are not performing this process.

Recommendation:

A remedy for this situation would be to regularly review related balances to ensure they are being adjusted appropriately in a timely manner. We also recommend that management strive to accurately prepare the complete set of financial statements internally.

Views of Responsible Official:

Management will review its year-end accounting and internal control procedures and implement improvements where practical.

SECTION III - FEDERAL AWARDS AUDIT FINDINGS AND QUESTIONED COSTS

None noted.

SECTION IV - PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Financial Statement Findings

2022-001 Material Weakness – Year-End Financial Reporting

While the internal systems and procedures have been improved to partially resolved this finding, it is repeated as a finding in the current year (2023-001).

Federal Award Findings and Questioned Costs

There were no findings or questioned costs in the prior year audit.