



Financial Statements
June 30, 2021

Northwestern Area School District 56-7

Northwestern Area School District 56-7

School District Officials (Unaudited)

June 30, 2021

School Board Chairman..... Amy Troske

School Board Vice-Chairman..... Heidi Boekelheide

School Board Members.....Troy Grandpre
Kevin Nash
Mary Mielke

Superintendent Ryan Bruns

Business ManagerLisa Frericks

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Northwestern Area School District 56-7 (the School District) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, schedule of the School District's share of net pension liability (asset), and schedule of the School District's contributions as listed on pages 3 through 9 and 43 through 50, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2021, 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.



Aberdeen, South Dakota
December 29, 2021

This section of the Northwestern Area School District 56-7 (the School District) annual financial report presents our discussion and analysis of the School District's financial performance during the fiscal year ended on June 30, 2021. It is to be read in conjunction with the School District's financial statements which follow this section.

Financial Highlights

During the year, the School District's total revenues in governmental activities exceeded total expenditures by \$462,942. When compared to fiscal year 2020, revenues increased overall by 10%, while expenditures increased by 4% during the same period.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements with footnotes, and required supplementary information.

The first two statements are government-wide financial statements that provide both long-term and short-term information about the School District's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the School District's operations in more detail than the government-wide statements and are comprised of three separate and distinct sections:

The governmental funds statements show how general government services were financed in the short-term as well as what remains for future spending in general fund and special revenue funds (capital outlay and special education).

Proprietary funds statements offer short-and long-term financial information about the activities the School District operates like businesses. The School District operates two proprietary funds: Food Service and Other Education Programs Fund that includes preschool, driver's education and concessions.

Fiduciary fund statements provide information about the financial relationships (i.e. scholarship funds for graduating students) in which the School District acts solely as a trustee or agent for the benefit of others, to whom the resources belong.

Government-Wide Statements

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

The two government-wide statements report the School District's net position and how they have changed. Net position, the difference between the School District's assets and liabilities, are one way to measure the School District's financial health or position. Over time, increases or decreases in the School District's net position is an indication of whether its financial health is improving or deteriorating, respectively. The School District's government-wide statement shows an increase in net position for fiscal year 2021.

The government-wide financial statements of the School District are divided into two categories:

- **Governmental Activities** – This category includes the School District's basic instructional services, such as elementary, middle school and high school educational programs, support services (guidance, executive administration, board of education, fiscal services, buildings and grounds, transportation, etc.), debt service payments, co-curricular activities (sports, oral interpretation, music, etc.) and capital equipment purchases. Property taxes, state grants, federal grants, and miscellaneous local revenues finance most of these activities.
- **Business-Type Activities** – The School District operates a food service operation. In addition to charging for meals in food service, the operation also received federal program reimbursements. Besides the revenue received for user fees, the program also relies upon donations and private and governmental grants when available. Other business-type activities include other education programs for driver's education, a preschool and concessions.

Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Funds are accounting devices that the School District uses to keep track of specific sources of funding and spending for particular purposes, some of which are required by state law or established by the School District's Board of Education.

The School District has three kinds of funds:

- **Governmental Funds** – All of the School District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps stakeholders determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the relationship (or differences) between the fund financials and the government-wide statement.
- **Proprietary Funds** – Services for which the School District charges customers a fee, i.e. food service, are reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information.
- **Fiduciary Funds** – The School District is trustee, or fiduciary, for various external and internal parties. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. These activities are excluded from the School District's government-wide financial statements because the School District does not own and cannot use these assets to finance its operations. An internal audit of these funds is conducted at the end of each fiscal year.

Financial Analysis of the School District as A Whole

The School District's total combined position was \$6,718,536 at June 30, 2021, an increase of \$476,280 from the previous year. A comparative computation of net position is detailed below in Table A-1.

Table
A-1
Statement of Net Position
Fiscal Year Ended June 30, 2021 and 2020

	Governmental		Business-Type		Total	
	Activities		Activities		School District	
	FY 2021	FY 2020	FY 2021	FY 2020	FY 2021	FY 2020
Current & Other Assets	5,402,268	4,899,137	77,135	55,749	5,479,403	4,954,886
Prepaid Expenses	3,000	288	-	-	3,000	288
Net Pension Asset	3,047	7,534	110	262	3,157	7,796
Capital Assets	2,719,617	2,603,149	17,878	14,773	2,737,495	2,617,922
Total Assets	8,127,932	7,510,108	95,123	70,784	8,223,055	7,580,892
Deferred Outflows of Resources-Pension	493,681	386,073	17,870	13,421	511,551	399,494
Total Assets/DOF	8,621,613	7,896,181	112,993	84,205	8,734,606	7,980,386
Long-Term Debt Outstanding	2,520	13,236	-	-	2,520	13,236
Net Pension Liability	-	-	-	-	-	-
Other Liabilities	302,191	266,792	18,729	12,359	320,920	279,151
Total Liabilities	304,711	280,028	18,729	12,359	323,440	292,387
Deferred Inflows of Resources	1,678,213	1,440,406	14,417	5,337	1,692,630	1,445,743
Net Position:						
Net Investment in Capital Assets	2,717,097	2,598,247	15,198	14,773	2,732,295	2,613,020
Restricted	2,873,394	2,549,871	3,563	8,346	2,876,957	2,558,217
Unrestricted	1,048,198	1,027,629	61,086	43,390	1,109,284	1,071,019
Total Net Position	6,638,689	6,175,747	79,847	66,509	6,718,536	6,242,256
Beginning Net Position	6,175,747	5,868,201	66,509	58,444	6,242,256	5,926,645
Increase (Decrease) in Net Position	462,942	249,701	13,338	6,343	476,280	256,044
Implementation of GASB 84	-	57,845	-	1,722	-	59,567
Percentage of Increase (Decrease) in Net Position	7%	5%	20%	14%	8%	5%

Northwestern Area School District 56-7

Management's Discussion and Analysis

June 30, 2021

The Statement of Net Position reports all financial and capital resources of the School District. The statement presents the assets and liabilities in order of relative liquidity. Over 40% of the School District's assets and deferred inflows of resources are invested in capital assets (land, buildings, and equipment). The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The School District's long-term liabilities consist of a copier capital lease. The difference between the School District's assets and liabilities is its net position.

The restricted net position in governmental funds are funds specifically restricted by law for special revenue funds' (capital outlay and special education) and SDRS pension purposes. The restricted net position in business-type activities enterprise funds is restricted for food service SDRS pension purposes. Table A-2 below presents detailed information on how the change in net position was arrived at.

Table A-2
Changes in Net Position
Fiscal Year Ended June 30, 2021 and 2020

Statement of Activities						
	Governmental		Business-Type		Total	
	Activities		Activities		School District	
	FY 2021	FY 2020	FY 2021	FY 2020	FY 2021	FY 2020
Revenues						
Program Revenues:						
Charges for services	155,668	222,275	63,221	122,118	218,889	344,393
Operating grants and contributions	398,871	117,072	113,496	63,287	512,367	180,359
General Revenues						
Taxes & other intermediate revenues	2,704,961	2,677,272	-	-	2,704,961	2,677,272
Revenue State Sources	634,595	469,463	-	-	634,595	469,463
Revenue Federal Sources	1,556	25,502	-	-	1,556	25,502
Unrestricted Investment Earnings	22,140	42,589	95	454	22,235	43,043
Other General Revenues	34,714	40,246	-	-	34,714	40,246
Gain on Surplus Property	4,725	3,650	-	-	4,725	3,650
Total Revenues	3,957,230	3,598,069	176,812	185,859	4,134,042	3,783,928
Percentage of Increase (Decrease)	10%	12%	(5%)	6%	9%	12%
Program Expenses						
Instruction	1,956,933	1,932,685	-	-	1,956,933	1,932,685
Support Services	1,225,455	1,118,643	-	-	1,225,455	1,118,643
Non-program Charges/Community	42,724	8,970	-	-	42,724	8,970
Interest	2,597	2,597	-	-	2,597	2,597
Co-curricular Activities	260,579	277,086	-	-	260,579	277,086
Enterprise Activities	-	-	169,474	187,903	169,474	187,903
Total Expenses	3,488,288	3,339,981	169,474	187,903	3,657,762	3,527,884
Percentage of Increase (Decrease)	4%	9%	(10%)	7%	4%	9%
Excess (Deficiency) Before Special Items and Transfers	468,942	258,088	7,338	(2,044)	476,280	256,044
Transfers	(6,000)	(8,387)	6,000	8,387	-	-
Increase (Decrease) in Net Position	462,942	249,701	13,338	6,343	476,280	256,044

The School District's governmental activities total revenues (excluding special items) totaled \$3,957,230. This is an increase of around 10% in governmental activities. The revenues in the business activities decreased by 5%. In the current year, approximately 68% of the School District's revenue comes from taxes, approximately 16% from state sources and the remainder from federal and local sources of revenue. Expenditures showed an overall increase of 4%.

Financial Analysis of the School District's Funds

Since net position shown on the government-wide statements does not reflect spendable resources, the truest picture of the School District's reserves comes from the fund balances on the fund financial statements.

On the fund financial statements General Fund reserves increased by \$17,551 to a fund balance of \$1,038,339. This reserve balance is not considered excessive accumulation of reserve balance; however, there would be a penalty if the fund balance is not 30% or below for fiscal year 2020-2021. Currently, in this fiscal year we are at a fund balance of 21.5%. With the increase of salaries and increases in other expenses, the general fund balance reduction should continue to be met.

Capital Outlay reserves increased by \$400,152 to a fund balance of \$2,281,788.

Special Education increased by \$64,989 to \$487,711. Reserves in special education are being allowed to increase because of an increase in the numbers of students being serviced through individual education plans, including services to an increased number of pre-school students whose services will call for expansion as these children enter school and require more one-on-one instruction.

It is expected that reserves in all funds at June 30, 2021, together with anticipated revenues, are adequate to meet future obligations.

Budgetary Highlights

Over the course of the year, the School Board made no revisions to the fiscal year budget, beside budget supplements.

Capital Asset Administration

By the end of fiscal year 2021, the School District had invested \$2,737,495 in a broad range of capital assets including land, buildings, various machinery, and equipment in Governmental and Business-Type activities. (See Table A-3 below.) This amount represents a net increase of \$119,573 over last year and results from current year depreciation expense and net difference between additions and deletions of equipment.

Northwestern Area School District 56-7
Management's Discussion and Analysis
June 30, 2021

Table A-3
Capital Assets
Fiscal Year ended June 30, 2021 and 2020

	Governmental Activities		Business-Type Activities		Total School District	
	FY 2021	FY 2020	FY 2021	FY 2020	FY 2021	FY 2020
Land	765	765	-	-	765	765
Buildings	2,154,525	2,064,764	-	-	2,154,525	2,064,764
Machinery and Equipment	564,327	537,620	17,878	14,773	582,205	552,393
Total Assets	2,719,617	2,603,149	17,878	14,773	2,737,495	2,617,922

Long-Term Debt

As of June 30, 2021, the School District had total outstanding debt of \$2,520 a decrease of \$10,716 from the previous year. The debt is comprised of a 5-year copier lease that was capitalized. Table A-4 details those transactions.

Table A-4
Long-Term Debt
Fiscal Year ended June 30, 2021 and 2020

	Governmental Activities		Business-Type Activities		Total Dollar Change	Total Dollar Change
	FY 2021	FY 2020	FY 2021	FY 2020	FY 2021	FY 2020
Early Retirement	-	8,334	-	-	(8,334)	(8,333)
Copier Capital Lease	2,520	4,902	-	-	(2,382)	(4,774)
Total Outstanding Debt and Obligations	2,520	10,716	-	-	(10,716)	(13,107)

Economic Factors and Next Year's Budgets and Rates

The primary sources of revenue to the School District in its operating budget is received from the State of South Dakota on a new formula based on district size and targeted teacher/student ratio. As such, student census will continue to be a concern in years to come. The state aid formula for the current year (fiscal year 2022) is based on the fall 2021 enrollment, calculating a target teacher ratio to come up with a target teacher compensation plus overhead for other expenses, less the amount we will received for revenue equalization. Long-term budget projections indicate that the School District will have positive net position in all funds for at least five years because of the healthy fund reserves. In the long range, and based on very preliminary data and pre-school screenings, class size is expected to level off at 15-20 students per grade, depending on our open-enrollment numbers.

There is much uncertainty right now about the future of small schools in South Dakota. Much will depend on the impacting actions of the South Dakota Legislature and Department of Education. It will be interesting to see how much support the State Legislature will give education funding.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. Questions about the report or requests for additional information may be directed to the Business Office, Northwestern Area School District 56-7, 221 3rd Street, Mellette, South Dakota, 57461, phone 605-887-3467, Ext 1004.

Northwestern Area School District 56-7

Statement of Net Position

June 30, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,661,941	\$ 65,946	\$ 2,727,887
Investments	1,503,016	-	1,503,016
Taxes receivable	1,041,011	-	1,041,011
Accounts receivable	196,300	80	196,380
Inventories	-	11,109	11,109
Prepaid expenses	3,000	-	3,000
Net pension asset	3,047	110	3,157
Capital assets:			
Land	765	-	765
Other capital assets, net of depreciation	2,718,852	17,878	2,736,730
	<u>8,127,932</u>	<u>95,123</u>	<u>8,223,055</u>
Deferred Outflows of Resources			
Pension related deferred outflows	493,681	17,870	511,551
	<u>\$ 8,621,613</u>	<u>\$ 112,993</u>	<u>\$ 8,734,606</u>
Liabilities			
Accounts payable	\$ 42,688	\$ 3,197	\$ 45,885
Other current liabilities	259,503	15,532	275,035
Noncurrent liabilities:			
Due within one year	2,520	-	2,520
Total liabilities	<u>304,711</u>	<u>18,729</u>	<u>323,440</u>
Deferred Inflows of Resources			
Pension related deferred inflows	398,275	14,417	412,692
Taxes levied for future period	1,279,938	-	1,279,938
Total deferred inflows of resources	<u>1,678,213</u>	<u>14,417</u>	<u>1,692,630</u>
Net Position			
Net investment in capital assets	2,717,097	15,198	2,732,295
Restricted for:			
Capital outlay	2,285,351	-	2,285,351
Special education	489,590	-	489,590
SDRS pension purposes	98,453	3,563	102,016
Unrestricted	1,048,198	61,086	1,109,284
Total net position	<u>6,638,689</u>	<u>79,847</u>	<u>6,718,536</u>
	<u>\$ 8,621,613</u>	<u>\$ 112,993</u>	<u>\$ 8,734,606</u>

Northwestern Area School District 56-7

Statement of Activities

Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Primary Government						
Governmental activities:						
Instruction	\$ 1,956,933	\$ 12,182	\$ 398,871	\$ (1,545,880)	\$ -	\$ (1,545,880)
Support services	1,225,455	-	-	(1,225,455)	-	(1,225,455)
Community services	33,752	-	-	(33,752)	-	(33,752)
Nonprogrammed charges	8,972	-	-	(8,972)	-	(8,972)
Interest on long-term debt	2,597	-	-	(2,597)	-	(2,597)
Co-curricular activities	260,579	143,486	-	(117,093)	-	(117,093)
Total governmental activities	3,488,288	155,668	398,871	(2,933,749)	-	(2,933,749)
Business-type activities:						
Preschool	25,923	16,140	-	-	(9,783)	(9,783)
Drivers education	3,197	3,230	-	-	33	33
Concessions	16,044	17,289	-	-	1,245	1,245
Food service	124,310	26,562	113,496	-	15,748	15,748
Total business-type activities	169,474	63,221	113,496	-	7,243	7,243
Total primary government	\$ 3,657,762	\$ 218,889	\$ 512,367	(2,933,749)	7,243	(2,926,506)
General Revenues						
Taxes:						
Property taxes				2,595,280	-	2,595,280
Tax deed revenue				106	-	106
Gross receipts taxes				109,575	-	109,575
Revenue from state sources:						
State aid				634,595	-	634,595
Revenue from federal sources				1,556	-	1,556
Unrestricted investment earnings				22,140	95	22,235
Other general revenues				34,714	-	34,714
Gain on sale of surplus property				4,725	-	4,725
Transfers				(6,000)	6,000	-
Total general revenues and transfers				3,396,691	6,095	3,402,786
Change in Net Position				462,942	13,338	476,280
Net Position - Beginning				6,175,747	66,509	6,242,256
Net Position - Ending				\$ 6,638,689	\$ 79,847	\$ 6,718,536

See Notes to Financial Statements

Northwestern Area School District 56-7

Balance Sheets – Governmental Funds

June 30, 2021

	General Fund	Capital Outlay Fund	Special Education Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 364,424	\$ 1,765,910	\$ 531,607	\$ 2,661,941
Investments	903,016	600,000	-	1,503,016
110 Taxes receivable - current	602,208	296,079	127,423	1,025,710
112 Taxes receivable - delinquent	9,859	3,563	1,879	15,301
120 Accounts receivable	6,003	-	12	6,015
140 Due from government	185,542	4,743	-	190,285
190 Prepaid expenses	3,000	-	-	3,000
	<u>\$ 2,074,052</u>	<u>\$ 2,670,295</u>	<u>\$ 660,921</u>	<u>\$ 5,405,268</u>
Liabilities, Deferred Inflows, and Fund Balances				
Liabilities				
402 Accounts payable	\$ 7,712	\$ 30,222	\$ 4,754	\$ 42,688
404 Contracts payable	185,051	-	10,943	195,994
415 Amounts held for others	6,305	-	-	6,305
450 Payroll deductions and withholdings and employer matching payable	54,233	-	2,971	57,204
Total liabilities	<u>253,301</u>	<u>30,222</u>	<u>18,668</u>	<u>302,191</u>
Deferred Inflows of Resources				
551 Unavailable revenue - delinquent property taxes	9,859	3,563	1,879	15,301
553 Taxes levied for future period	772,553	354,722	152,663	1,279,938
Total deferred inflows of resources	<u>782,412</u>	<u>358,285</u>	<u>154,542</u>	<u>1,295,239</u>
Fund Balances				
Restricted:				
Capital outlay	-	2,281,788	-	2,281,788
Special education	-	-	487,711	487,711
Unassigned	1,038,339	-	-	1,038,339
Total fund balances	<u>1,038,339</u>	<u>2,281,788</u>	<u>487,711</u>	<u>3,807,838</u>
	<u>\$ 2,074,052</u>	<u>\$ 2,670,295</u>	<u>\$ 660,921</u>	<u>\$ 5,405,268</u>

See Notes to Financial Statements

Northwestern Area School District 56-7
Reconciliation of the Governmental Funds Balance Sheets to the Statement of Net Position
Year Ended June 30, 2021

Total Fund Balances - Governmental Funds	\$ 3,807,838
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.	2,719,617
Assets, such as delinquent taxes receivable, are not available to pay for current period expenditures and are deferred in the funds.	15,301
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:	
Capital lease payable	(2,520)
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>98,453</u>
Net Position - Governmental Funds	<u><u>\$ 6,638,689</u></u>

Northwestern Area School District 56-7

Statements of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

Year Ended June 30, 2021

	General Fund	Capital Outlay Fund	Special Education Fund	Total Governmental Funds
Revenues				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 1,546,256	\$ 691,831	\$ 329,177	\$ 2,567,264
1120 Prior year's ad valorem taxes	18,221	3,902	1,972	24,095
1130 Tax deed revenue	106	-	-	106
1140 Gross receipts taxes	109,575	-	-	109,575
1190 Penalties and interest on taxes	6,465	1,836	885	9,186
1500 Earnings on investments and deposits	12,194	9,946	-	22,140
1700 Co-curricular activities:				
1710 Admissions	12,665	-	-	12,665
1740 Rentals	2,100	-	-	2,100
1790 Other student activity income	128,721	-	-	128,721
1900 Other revenue from local sources:				
1920 Contributions and donations	8,678	-	11	8,689
1960 Judgements	1,546	-	-	1,546
1970 Charges for services	2,095	-	10,087	12,182
1990 Other	8,119	-	-	8,119
2000 Revenue from intermediate sources				
2100 County sources:				
2110 County apportionment	14,316	-	-	14,316
2200 Revenue in lieu of taxes	1,116	649	279	2,044
3000 Revenue from state sources				
3100 Grants-in-aid:				
3110 Unrestricted grants-in-aid	634,595	-	-	634,595
4000 Revenue from federal sources				
4100 Grants-in-aid:				
4130 Unrestricted grants-in-aid received from federal government through an intermediate source	74,446	-	-	74,446
4150-4199 Restricted grants-in-aid received from federal government through the state	209,686	114,739	-	324,425
4900 Other federal revenue	1,556	-	-	1,556
Total revenues	2,792,456	822,903	342,411	3,957,770
Expenditures				
1000 Instruction				
1100 Regular programs:				
1110 Elementary	498,548	39,466	-	538,014
1120 Middle/junior high	308,893	11,621	-	320,514
1130 High school	606,526	22,387	-	628,913
1200 Special programs:				
1220 Programs for special education	-	-	240,850	240,850
1270 Educationally deprived	62,200	-	-	62,200
2000 Support services				
2100 Pupils:				
2120 Guidance	57,439	-	-	57,439
2130 Health	5,008	-	-	5,008
2140 Psychological	-	-	7,144	7,144
2150 Speech pathology	-	-	18,184	18,184
2200 Support services - instructional staff:				
2210 Improvement of instruction	30,757	-	-	30,757
2220 Educational media	45,025	2,812	-	47,837
2300 Support services - general administration:				
2310 Board of Education	95,933	-	-	95,933
2320 Executive administration	104,769	-	-	104,769
2400 Support services - school administration:				
2410 Office of the principal	169,041	-	-	169,041
2490 Other support services	163	3,765	-	3,928

Northwestern Area School District 56-7
Statements of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2021

	General Fund	Capital Outlay Fund	Special Education Fund	Total Governmental Funds
2500 Support services - business:				
2520 Fiscal services	93,049	3,550	-	96,599
2540 Operation and maintenance of plant	272,836	15,110	-	287,946
2550 Pupil transportation	165,437	3,621	-	169,058
2600 Support services - central:				
2640 Staff	468	-	-	468
2700 Support services - special education:				
2710 Administrative costs	-	-	11,244	11,244
3000 Community services				
3700 Nonpublic school	29,560	4,192	-	33,752
4000 Nonprogrammed charges				
4500 Early retirement payments	8,972	-	-	8,972
5000 Debt services	-	2,597	-	2,597
6000 Co-curricular activities				
6100 Male activities	46,339	-	-	46,339
6200 Female activities	66,104	-	-	66,104
6900 Combined activities	106,563	8,610	-	115,173
7500 Capital outlay	-	305,020	-	305,020
Total expenditures	<u>2,773,630</u>	<u>422,751</u>	<u>277,422</u>	<u>3,473,803</u>
Excess of Revenues over (under) Expenditures	<u>18,826</u>	<u>400,152</u>	<u>64,989</u>	<u>483,967</u>
Other Financing Sources (Uses)				
5130 Sale of surplus property	4,725	-	-	4,725
8110 Transfers out	(6,000)	-	-	(6,000)
Total other financing sources (uses)	<u>(1,275)</u>	<u>-</u>	<u>-</u>	<u>(1,275)</u>
Net Change in Fund Balances	17,551	400,152	64,989	482,692
Fund Balance - Beginning	<u>1,020,788</u>	<u>1,881,636</u>	<u>422,722</u>	<u>3,325,146</u>
Fund Balance - Ending	<u>\$ 1,038,339</u>	<u>\$ 2,281,788</u>	<u>\$ 487,711</u>	<u>\$ 3,807,838</u>

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, 2021

Net Change in Fund Balances - Total Governmental Funds	\$ 482,692
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 (\$305,020) exceeded depreciation (\$188,552) in the current period.	116,468
Governmental funds do not reflect the change in early retirement debt; but, the effects of this debt is reflected in the statement of activities.	8,334
The accrual of capital lease liabilities is not reflected in governmental funds; but, the statement of activities reflects the change in this liability from one year to the next.	2,382
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."	(5,265)
Revenues and reductions of expenses related to pensions do not provide current financial resources and, therefore, are not reported in the funds.	(141,669)
Change in Net Position of Governmental Activities	<u>\$ 462,942</u>

Northwestern Area School District 56-7

Statements of Net Position – Proprietary Funds

June 30, 2021

	Enterprise		
	Food Service	Other Education	
	Fund	Programs	Total
	Fund	Fund	
Assets			
Current Assets			
Cash and cash equivalents	\$ 61,942	\$ 4,004	\$ 65,946
120 Accounts receivable	-	80	80
171 Inventory of stores purchased for resale	2,289	-	2,289
172 Inventory of donated food	8,820	-	8,820
Total current assets	73,051	4,084	77,135
Noncurrent Assets			
196 Net pension asset	79	31	110
200 Capital assets:			
204 Machinery and equipment - local funds	70,196	-	70,196
205 Machinery and equipment - fed assist	2,680	-	2,680
208 Accumulated depreciation - machinery and equipment	(54,998)	-	(54,998)
Total noncurrent assets	17,957	31	17,988
Deferred Outflows of Resources			
Pension related deferred outflows	12,795	5,075	17,870
	\$ 103,803	\$ 9,190	\$ 112,993
Liabilities			
402 Accounts payable	\$ -	\$ 3,197	\$ 3,197
474 Unearned revenue	15,532	-	15,532
Total liabilities	15,532	3,197	18,729
Deferred Inflows of Resources			
554 Pension related deferred inflows	10,323	4,094	14,417
Net Position			
706 Net investment in capital assets	15,198	-	15,198
707 Restricted for SDRS pension purposes	2,551	1,012	3,563
708 Unrestricted net position	60,199	887	61,086
Total net position	77,948	1,899	79,847
	\$ 103,803	\$ 9,190	\$ 112,993

Northwestern Area School District 56-7
Statements of Revenues, Expenses, and Changes in Net Position – Proprietary Funds
Year Ended June 30, 2021

		Enterprise	
	Food Service	Other Education	
	Fund	Programs	Total
	Fund	Fund	
Operating Revenues			
Tuition and fees			
1310 Student tuition	\$ -	\$ 19,370	\$ 19,370
Sales			
1610 To pupils	20,777	-	20,777
1620 To adults	5,785	-	5,785
1630 Concessions	-	16,115	16,115
Other			
1970 Charges for services	-	1,174	1,174
Total operating revenues	<u>26,562</u>	<u>36,659</u>	<u>63,221</u>
Operating Expenses			
1120 Middle/Junior high			
100 Salaries	-	21,350	21,350
200 Employee benefits	-	5,143	5,143
2560 Food service			
100 Salaries	42,027	-	42,027
200 Employee benefits	11,450	-	11,450
300 Purchased services	3,330	-	3,330
400 Supplies	4,698	-	4,698
461 Cost of sales - purchased food	51,958	6,496	58,454
462 Cost of sales - donated food	7,888	-	7,888
910 Depreciation	2,959	-	2,959
3500 Custody and care of children			
300 Purchased services	-	3,000	3,000
400 Equipment and materials	-	9,175	9,175
Total operating expenses	<u>124,310</u>	<u>45,164</u>	<u>169,474</u>
Operating Loss	<u>(97,748)</u>	<u>(8,505)</u>	<u>(106,253)</u>
Nonoperating Revenues			
Local sources			
1990 Other	14	81	95
State sources			
3810 Cash reimbursements	632	-	632
Federal sources			
4810 Cash reimbursements	104,976	-	104,976
4820 Donated food	7,888	-	7,888
Total nonoperating revenues	<u>113,510</u>	<u>81</u>	<u>113,591</u>
Income (Loss) Before Transfers	15,762	(8,424)	7,338
5110 Transfers in	-	6,000	6,000
Change in Net Position	15,762	(2,424)	13,338
Net Position - Beginning	62,186	4,323	66,509
Net Position - Ending	<u>\$ 77,948</u>	<u>\$ 1,899</u>	<u>\$ 79,847</u>

Northwestern Area School District 56-7

Statements of Cash Flows – Proprietary Funds

Year Ended June 30, 2021

	Enterprise		
	Food Service	Other Education	
	Fund	Programs	Total
	Fund	Fund	
Cash Flows from (used for) Operating Activities			
Receipts from customers	\$ 30,229	\$ 36,579	\$ 66,808
Payments to suppliers	(59,882)	(15,561)	(75,443)
Payments to employees	(51,135)	(24,052)	(75,187)
Net Cash used for Operating Activities	(80,788)	(3,034)	(83,822)
Cash Flows from Noncapital Financing Activities			
Transfers in	-	6,000	6,000
Other	-	81	81
Operating subsidies	105,608	-	105,608
Net Cash from Noncapital Financing Activities	105,608	6,081	111,689
Cash Flows used for Capital and Related Financing Activities			
Purchase of capital assets	(6,064)	-	(6,064)
Net Cash used for Capital and Related Financing Activities	(6,064)	-	(6,064)
Cash Flows from Investing Activities			
Interest Earnings	14	-	14
Net Cash from Investing Activities	14	-	14
Change in Cash and Cash Equivalents	18,770	3,047	21,817
Cash and Cash Equivalents, Beginning of Year	43,172	957	44,129
Cash and Cash Equivalents, End of Year	\$ 61,942	\$ 4,004	\$ 65,946
Reconciliation of Operating Loss to			
Net Cash used for Operating Activities:			
Operating loss	\$ (97,748)	\$ (8,505)	\$ (106,253)
Adjustments to reconcile operating loss to			
net cash used for operating activities:			
Depreciation expense	2,959	-	2,959
Value of donated commodities used	7,888	-	7,888
Change in assets and liabilities:			
Inventories	104	-	104
Net pension asset/liability	75	77	152
Pension deferred inflows	7,194	1,886	9,080
Pension deferred outflows	(4,927)	478	(4,449)
Accounts receivable	407	(80)	327
Accounts payable	-	3,110	3,110
Unearned revenue	3,260	-	3,260
Net Cash used for Operating Activities	\$ (80,788)	\$ (3,034)	\$ (83,822)
Noncash Investing, Capital, and Financing Activities			
Value of Commodities Received	\$ 7,888	\$ -	\$ 7,888

Northwestern Area School District 56-7
Statement of Fiduciary Net Position – Fiduciary Fund
June 30, 2021

	<u>Custodial Fund</u>
Assets	
Cash and cash equivalents	\$ 7,485
Investments	<u>78,977</u>
	<u><u>\$ 86,462</u></u>
Net Position	
Restricted for scholarships	<u>\$ 86,462</u>
	<u><u>\$ 86,462</u></u>

Northwestern Area School District 56-7
Statement of Changes in Fiduciary Net Position – Fiduciary Fund
Year Ended June 30, 2021

	<u>Custodial Fund</u>
Additions	
Contributions and donations	<u>\$ 7,248</u>
Total additions	<u>7,248</u>
Deductions	
Scholarships awarded	<u>1,390</u>
Total deductions	<u>1,390</u>
Change in Net Position	5,858
Net Position - Beginning	<u>80,604</u>
Net Position - Ending	<u><u>\$ 86,462</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 does not exceed one bill-paying cycle and, for the School District, the length of that cycle is 60 days. 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.

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, 2021, balance of capital assets for governmental activities and business-type activities are all valued at original cost.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land*	\$ 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 capital lease obligations.

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.

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 primarily 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.

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

The School District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized 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, 2021, the School District's bank balances were \$3,564,652, which includes certificates of deposit and bank accounts. Of these deposits, \$500,000 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 holds certificates of deposits with financial institutions as investments. Those investments are held at amortized cost.

As of June 30, 2021, the School District had \$780,356 which was held in the South Dakota Public Fund Investment Trust Government Cash Reserve Fund (SD FIT GCR). SD FIT GCR is an unrated, external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts, and counties.

The net asset value of the SD FIT GCR is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis. Since the School District has ready access to the cash, it is reported as cash and cash equivalents.

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. As of June 30, 2021, the School District's investment in the SD FIT GCR was unrated.

Concentration of Credit Risk: The School District places no limit on the amount that may be invested in any one issuer. One hundred percent of the School District's investments are in the SD FIT GCR, reported as cash and cash equivalents, or certificates of deposit held with financial institutions, reported as 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.

Valued at Net Asset Value

	<u>Amortized Cost</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
SD FIT GCR	\$ 780,356	\$ -	Daily	Daily

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

Note 3 - Changes in Capital Assets

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

Primary Government Governmental Activities	Balance 07/01/20	Increases	Decreases	Balance 06/30/21
Capital assets not being depreciated:				
Land	\$ 765	\$ -	\$ -	\$ 765
Total capital assets not being depreciated	765	-	-	765
Capital assets being depreciated:				
Buildings	4,087,104	186,434	-	4,273,538
Machinery and equipment	1,213,809	118,586	75,515	1,256,880
Total capital assets being depreciated	5,300,913	305,020	75,515	5,530,418
Less accumulated depreciation for:				
Buildings	2,022,340	96,673	-	2,119,013
Machinery and equipment	676,189	91,879	75,515	692,553
Total accumulated depreciation	2,698,529	188,552	75,515	2,811,566
Total capital assets being depreciated, net	2,602,384	116,468	-	2,718,852
Governmental activity capital assets, net	\$ 2,603,149	\$ 116,468	\$ -	\$ 2,719,617

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 81,035
Support services	78,067
Co-curricular activities	29,450
Total depreciation expense - governmental activities	\$ 188,552

Business-Type Activities	Balance 07/01/20	Increases	Decreases	Balance 06/30/21
Capital assets being depreciated:				
Machinery and equipment	\$ 66,813	\$ 6,064	\$ -	\$ 72,877
Total capital assets being depreciated	66,813	6,064	-	72,877
Less accumulated depreciation for:				
Machinery and equipment	52,040	2,959	-	54,999
Total accumulated depreciation	52,040	2,959	-	54,999
Total capital assets being depreciated, net	14,773	3,105	-	17,878
Business-type activities capital assets, net	\$ 14,773	\$ 3,105	\$ -	\$ 17,878

Depreciation expense was charged to functions as follows:

Business-type activities:	
Food services	\$ 2,959
Total depreciation expense - business-type activities	\$ 2,959

Note 4 - Noncurrent Liabilities

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

	Beginning Balance	Additions	Decreases	Ending Balance	Due Within One Year
Primary Government					
Governmental activities:					
Financing (capital acquisition) leases	\$ 4,902	\$ -	\$ 2,382	\$ 2,520	\$ 2,520
Early retirement benefits	8,334	-	8,334	-	-
Total governmental activities	13,236	-	10,716	2,520	2,520
Total primary government	<u>\$ 13,236</u>	<u>\$ -</u>	<u>\$ 10,716</u>	<u>\$ 2,520</u>	<u>\$ 2,520</u>

The annual debt service requirements to maturity for all liabilities outstanding as of June 30, 2021, are as follows:

Year Ending June 30:	Financing (Capital Acquisition) Leases	
	Principal	Interest
2022	\$ 2,520	\$ 77
	<u>\$ 2,520</u>	<u>\$ 77</u>

Long-term liabilities payable at June 30, 2021, is comprised of the following:

Financing (Capital Acquisition) Leases

Century Business Leasing copier lease, matures June 2022,

5.609% interest, monthly payments of \$216 paid by the Capital Outlay Fund. \$ 2,520

Note 5 - Restricted Net Position

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

Fund	Restricted By	Amount
Capital Outlay	Law	\$ 2,285,351
Special Education	Law	489,590
SDRS Pension Purposes	Law	102,016
Total restricted net position		<u>\$ 2,876,957</u>

Note 6 - Interfund Transfers

Interfund transfers for the year ended June 30, 2021, consisted of a \$6,000 transfer from the General Fund to the Other Education Programs 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 7 - Early Retirement

Each teacher who accepts retirement after the age of 55 and prior to the age of 62 with at least 20 years of service in the School District will be given \$25,000 incentive pay, and can be paid out over a three, four, or five year period. As of June 30, 2021, there were no remaining employees approved to receive this benefit.

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, 2021, this joint venture had total assets and fund equity of \$330,797.

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, 2021, 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, and provide them with risk management services, loss control and risk reduction information, and to obtain lower costs for that coverage. The School District's responsibility is to promptly report to, and cooperate with, the ASBSD-PLF to resolve any incident which could result in a claim being made by or against the School District. The School District pays an annual premium to provide liability coverage detailed below under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience-to-date of the ASBSD-PLF member, based on their exposure or type of coverage. The School District pays an annual premium to the pool to provide coverage for 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, 2021, no claims for unemployment benefits were paid. At June 30, 2021, no claims had been filed for unemployment benefits in 2021 and none are anticipated in the next fiscal year.

Note 10 - Litigation

At June 30, 2021, 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, 2021, 2020, and 2019, were \$101,913, \$95,745, and \$93,851, 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, 2020, SDRS is 100.04% funded and, accordingly, has a net pension asset. The proportionate share of the components of the net pension asset of SDRS for the School District as of the measurement period ending June 30, 2020, and reported by the School District as of June 30, 2021, are as follows:

Proportionate share of net pension liability	\$ 8,938,187
Less proportionate share of net pension restricted for pension benefits	<u>8,941,344</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (3,157)</u></u>

At June 30, 2021, the School District reported a liability (asset) of (\$3,158) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2020, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the School District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2020, the School District's proportion was 0.07270960%, which is an increase (decrease) of (0.0008569%) from its proportion measured as of June 30, 2019.

Northwestern Area School District 56-7

Notes to Financial Statements

June 30, 2021

For the year ended June 30, 2021, the School District recognized pension expense of \$146,452. At June 30, 2021, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Inflows of Resources
Difference between expected and actual experience	\$ 12,080	\$ 2,474
Changes in assumption	101,714	410,218
Net difference between projected and actual earnings on pension plan investments	293,498	-
Changes in proportion and difference between School District contributions and proportionate share of contributions	2,346	-
School District contributions subsequent to the measurement date	101,913	-
Total	<u>\$ 511,551</u>	<u>\$ 412,692</u>

The \$101,913 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended June 30:	Amount
2022	\$ (35,117)
2023	(27,635)
2024	4,846
2025	54,852
	<u>\$ (3,054)</u>

Actuarial Assumptions

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

Inflation	2.25%
Salary increases	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service
Discount rate	6.50% net of plan investment expense
Future COLAs	1.41%

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

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	5.1%
Fixed Income	30.0%	1.5%
Real Estate	10.0%	6.2%
Cash	2.0%	1.0%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions 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>\$ 1,225,003</u>	<u>\$ (3,157)</u>	<u>\$ (1,007,769)</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 \$58,292 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 \$51,283. The General Fund also has accounts receivable from the federal government relating to Title I, Title II, and CARES/Essex grant revenues in the amount of \$75,967. The Capital Outlay Fund has amounts due from other governments consisting of \$4,743 of CARES/Essex 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.



Required Supplementary Information
June 30, 2021

Northwestern Area School District 56-7

Northwestern Area School District 56-7

Budgetary Comparison Schedule – General Fund

Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 1,512,009	\$ 1,512,009	\$ 1,546,256	\$ 34,247
1120 Prior year's ad valorem taxes	5,000	5,000	18,221	13,221
1130 Tax deed revenue	-	-	106	106
1140 Gross receipts taxes	80,000	80,000	109,575	29,575
1190 Penalties and interest on taxes	4,500	4,500	6,465	1,965
1500 Earnings on investments and deposits	16,000	16,000	12,194	(3,806)
1700 Co-curricular activities:				
1710 Admissions	21,500	21,500	12,665	(8,835)
1740 Rentals	700	700	2,100	1,400
1790 Other pupil activity income	31,000	31,000	128,721	97,721
1900 Other revenue from local sources:				
1920 Contributions and donations	4,000	4,000	8,678	4,678
1960 Judgements	-	-	1,546	1,546
1970 Charges for services	3,400	3,400	2,095	(1,305)
1990 Other	6,200	6,200	8,119	1,919
2000 Revenue from intermediate sources				
2100 County sources:				
2110 County apportionment	12,000	12,000	14,316	2,316
2200 Revenue in lieu of taxes	-	-	1,116	1,116
3000 Revenue from state sources				
3100 Grants-in-aid:				
3110 Unrestricted grants-in-aid	570,805	570,805	634,595	63,790
4000 Revenue from federal sources				
4100 Grants-in-aid:				
4130 Unrestricted grants-in-aid received from federal government through an intermediate source	-	-	74,446	74,446
4150-4199 Restricted grants-in-aid received from federal government through the state	133,695	133,695	209,686	75,991
4900 Other federal revenue	-	-	1,556	1,556
Total revenues	2,400,809	2,400,809	2,792,456	391,647

Northwestern Area School District 56-7
Budgetary Comparison Schedule – General Fund
Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
1000 Instruction				
1100 Regular programs:				
1110 Elementary	514,150	514,150	498,548	15,602
1120 Jr High School	275,000	309,000	308,893	107
1130 High School	652,050	652,050	606,526	45,524
1200 Special programs:				
1270 Educationally deprived	90,400	90,400	62,200	28,200
2000 Support services				
2100 Pupils:				
2110 Attendance and social work	400	400	-	400
2120 Guidance	42,225	57,725	57,439	286
2130 Health	500	5,200	5,008	192
2200 Support services - instructional staff:				
2210 Improvement of instruction	57,550	57,550	30,757	26,793
2220 Educational media	47,950	47,950	45,025	2,925
2300 Support services - general administration:				
2310 Board of Education	94,425	100,600	95,933	4,667
2320 Executive administration	107,400	107,400	104,769	2,631
2400 Support services - school administration:				
2410 Office of the principal	174,450	174,450	169,041	5,409
2490 Other support services	1,500	1,500	163	1,337
2500 Support services - business:				
2520 Fiscal services	95,625	95,625	93,049	2,576
2540 Operation and maintenance of plant	273,900	273,900	272,836	1,064
2550 Pupil transportation	195,750	195,750	165,437	30,313
2600 Support services - central:				
2640 Staff	600	600	468	132
3000 Community services:				
3700 Nonpublic school	-	29,619	29,560	59
3900 Other non-program	500	500	-	500
4000 Nonprogrammed charges:				
4500 Early Retirement Payments	8,971	8,971	8,972	(1)
6000 Co-curricular activities				
6100 Male activities	40,775	40,775	46,339	(5,564)
6200 Female activities	38,275	38,800	66,104	(27,304)
6900 Combined activities	38,575	41,675	106,563	(64,888)
Total expenditures	2,750,971	2,844,590	2,773,630	70,960
Excess of Revenues over (under) Expenditures	(350,162)	(443,781)	18,826	462,607
Other Financing Sources (Uses)				
5130 Sale of surplus property	-	-	4,725	4,725
5110 Transfers in	200,000	200,000	-	(200,000)
8110 Transfers out	(12,425)	(12,425)	(6,000)	6,425
Total other financing sources (uses)	187,575	187,575	(1,275)	(188,850)
Net Change in Fund Balances	(162,587)	(256,206)	17,551	273,757
Fund Balance - Beginning	1,020,788	1,020,788	1,020,788	-
Fund Balance - Ending	\$ 858,201	\$ 764,582	\$ 1,038,339	\$ 273,757

Northwestern Area School District 56-7
Budgetary Comparison Schedule – Capital Outlay Fund
Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
Revenues				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 707,000	\$ 707,000	\$ 691,831	\$ (15,169)
1120 Prior year's ad valorem taxes	3,000	3,000	3,902	902
1190 Penalties and interest on taxes	1,500	1,500	1,836	336
1500 Earnings on investments and deposits	12,000	12,000	9,946	(2,054)
1900 Other revenue from local sources:				
1920 Contributions and donations	4,000	4,000	-	(4,000)
2000 Revenue from intermediate sources				
2200 Revenue in lieu of taxes	-	-	649	649
4000 Revenue from federal sources				
4100 Grants-in-aid				
4150-4199 Restricted grants-in-aid received from federal government throughout the state	7,024	7,024	114,739	107,715
Total revenues	734,524	734,524	822,903	88,379
Expenditures				
1000 Instruction				
1100 Regular programs:				
1110 Elementary	67,825	67,825	39,466	28,359
1120 Jr High School	30,785	30,785	11,621	19,164
1130 High school	46,415	46,415	22,387	24,028
2000 Support services				
2200 Support services - instructional staff:				
2220 Educational media	14,375	14,375	8,111	6,264
2300 Support services - general administration:				
2310 Board of Education	5,400	5,400	-	5,400
2400 Support services - school administration:				
2490 Other	5,150	5,150	3,765	1,385
2500 Support services - business:				
2520 Fiscal services	4,550	4,550	3,550	1,000
2540 Operation and maintenance of plant	246,674	246,674	220,936	25,738
2550 Transportation	118,000	118,000	89,418	28,582
2560 Food Services	3,400	3,400	-	3,400
3000 Community services:				
3700 Nonpublic school	-	13,000	12,290	710
5000 Debt services	2,650	2,650	2,597	53
6000 Co-curricular activities				
6900 Combined activities	9,300	11,125	8,610	2,515
Total expenditures	554,524	569,349	422,751	146,598
Other Financing Sources (Uses)				
8110 Transfers out	(200,000)	(200,000)	-	200,000
Total other financing sources (uses)	(200,000)	(200,000)	-	200,000
Net Change in Fund Balances	(20,000)	(34,825)	400,152	434,977
Fund Balance - Beginning	1,881,636	1,881,636	1,881,636	-
Fund Balance - Ending	\$ 1,861,636	\$ 1,846,811	\$ 2,281,788	\$ 434,977

Northwestern Area School District 56-7
Budgetary Comparison Schedule – Special Education Fund
Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
Revenues				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 304,475	\$ 304,475	\$ 329,177	\$ 24,702
1120 Prior year's ad valorem taxes	1,500	1,500	1,972	472
1190 Penalties and interest on taxes	600	600	885	285
1900 Other revenue from local sources:				
1920 Contributions and donations	-	-	11	11
1970 Charges for services	12,000	12,000	10,087	(1,913)
2000 Revenue from intermediate sources				
2200 Revenue in lieu of taxes	-	-	279	279
Total revenues	318,575	318,575	342,411	23,836
Expenditures				
1000 Instruction				
1200 Special programs:				
1220 Programs for special education	305,925	305,925	240,850	65,075
2000 Support services				
2100 Pupils:				
2140 Psychological	8,000	8,000	7,144	856
2150 Speech pathology	20,000	20,000	18,184	1,816
2700 Support services - special education				
2710 Administrative costs	11,450	11,450	11,244	206
Total expenditures	345,375	345,375	277,422	67,953
Net Change in Fund Balances	(26,800)	(26,800)	64,989	91,789
Fund Balance - Beginning	422,722	422,722	422,722	-
Fund Balance - Ending	\$ 395,922	\$ 395,922	\$ 487,711	\$ 91,789

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, 2021

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	6/30/2020	0.0727096%	\$ (3,157)	\$ 1,595,750	0.20%	100.04%
SDRS	6/30/2019	0.0735665%	(7,796)	1,564,172	0.50%	100.09%
SDRS	6/30/2018	0.0735820%	(1,716)	1,529,694	0.11%	100.02%
SDRS	6/30/2017	0.0736902%	(6,687)	1,497,220	0.45%	100.10%
SDRS	6/30/2016	0.0757043%	255,722	1,439,516	17.76%	96.89%
SDRS	6/30/2015	0.0783327%	(332,231)	1,430,130	23.23%	104.10%
SDRS	6/30/2014	0.0831806%	(599,282)	1,454,591	41.20%	107.29%

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, 2021

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	6/30/2021	\$ 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, 2020 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2019 Actuarial Valuation. One change in actuarial assumptions and two plan provision changes are reflected and described below.

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

Benefit Provision Changes

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

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

Actuarial Assumption Changes

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

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

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

Actuarial Method Changes

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



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

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, 2021, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 29, 2021.

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 2021-001 and 2021-002 that we consider to be material weaknesses.

Compliance and Other Matters

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

The School District's Response to Findings

The School District's response to the findings identified in our audit are described in the accompanying 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 it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 29, 2021

Status of Prior Audit Recommendations

Finding 2020-001

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 2021-001.

Finding 2020-002

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 2021-002.

Current Audit Findings and Recommendations

Material Weaknesses

Finding 2021-001 – 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.

2021-002 – 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, 2021. 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.