

**NORTHEAST SOUTH DAKOTA  
HEAD START PROGRAM, INC.**

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

**OCTOBER 31, 2022**

**NORTHEAST SOUTH DAKOTA  
HEAD START PROGRAM, INC.**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Northeast South Dakota Head Start Program, Inc.  
Aberdeen, South Dakota

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of Northeast South Dakota Head Start Program, Inc. (a nonprofit organization), which comprise the statement of financial position as of October 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Northeast South Dakota Head Start, Inc. as of October 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Northeast South Dakota Head Start, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

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

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Northeast South Dakota Head Start, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### ***Auditors Responsibilities for the Audit of the Financial Statements***

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

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

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

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

### ***Report on Summarized Comparative Information***

We have previously audited Northeast South Dakota Head Start Program, Inc.'s 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 25, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Report on Supplementary Information***

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2023, on our consideration of Northeast South Dakota Head Start Program, Inc.'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 Northeast South Dakota Head Start Program Inc.'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 Northeast South Dakota Head Start Program, Inc.'s internal control over financial reporting and compliance.

*Wohlschlag Ritzman + Co., LLC*

Yankton, South Dakota  
July 26, 2023

**NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.**

STATEMENT OF FINANCIAL POSITION  
OCTOBER 31, 2022  
WITH COMPARATIVE TOTALS FOR OCTOBER 31, 2021

<b>ASSETS</b>	<b>2022</b>	<b>2021</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 147	18,293
Grants receivable:		
U.S. Department of Health and Human Services	160,671	82,284
State - Department of Education	<u>24,006</u>	<u>35,017</u>
Total current assets	<u>184,824</u>	<u>135,594</u>
<b>PROPERTY AND EQUIPMENT</b>		
Vehicles and equipment	978,622	1,005,706
Less: accumulated depreciation	(317,435)	(469,449)
Leased buildings	1,070,487	217,992
Less: accumulated amortization	<u>(79,770)</u>	<u>(27,294)</u>
Net property and equipment	<u>1,651,904</u>	<u>726,955</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,836,728</u>	<u>\$ 862,549</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 107,829	\$ 101,918
Accrued payroll taxes	470	432
Contracts payable	18,147	14,937
Unearned revenue	58,380	18,308
Current portion - leases payable	<u>127,130</u>	<u>25,170</u>
Total current liabilities	<u>311,956</u>	<u>160,765</u>
<b>LONG-TERM LIABILITIES</b>		
Leases payable, less current portion	<u>863,587</u>	<u>165,528</u>
<b>NET ASSETS</b>		
Without donor restrictions	<u>661,185</u>	<u>536,256</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,836,728</u>	<u>\$ 862,549</u>

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

**NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.**

STATEMENT OF ACTIVITIES  
YEAR ENDED OCTOBER 31, 2022  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED OCTOBER 31, 2021

	<u>2022</u>	<u>2021</u>
	<u>Without Donor Restrictions</u>	<u>Total</u>
<b>REVENUE</b>		
Grant revenue	\$ 3,549,187	\$ 3,273,688
In-kind contributions	<u>525,774</u>	<u>412,854</u>
Total revenue	<u>4,074,961</u>	<u>3,686,542</u>
<b>EXPENSES</b>		
Program activities:		
Child education	3,295,350	3,055,643
Food programs	295,725	207,037
Disposal of assets	<u>7,602</u>	<u>14,675</u>
Total program activities	<u>3,598,677</u>	<u>3,277,355</u>
Support services:		
Administrative costs	341,069	335,828
Fundraising	<u>10,286</u>	<u>10,093</u>
Total support services	<u>351,355</u>	<u>345,921</u>
Total expenses	<u>3,950,032</u>	<u>3,623,276</u>
Change in Net Assets	124,929	63,266
Net Assets - Beginning of Year	<u>536,256</u>	<u>472,990</u>
Net Assets - End of Year	<u><u>\$ 661,185</u></u>	<u><u>\$ 536,256</u></u>

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

**NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.**

STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED OCTOBER 31, 2022  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED OCTOBER 31, 2021

	2022						2021	
	Program Activities			Support Services			Total Expenses	Total Expenses
	Child Education	Food Programs	Total Program Activities	Administrative Costs	Fundraising	Total Support Services		
Wages and salaries	\$ 1,556,839	\$ 105,705	\$ 1,662,544	\$ 202,291	\$ 8,669	\$ 210,960	\$ 1,873,504	\$ 1,716,666
Payroll taxes	129,039	8,955	137,994	15,539	663	16,202	154,196	135,965
Fringe benefits	335,200	-	335,200	25,269	954	26,223	361,423	395,651
Travel/transportation	147,181	-	147,181	11,034	-	11,034	158,215	109,681
Supplies	172,334	49,749	222,083	30,349	-	30,349	252,432	206,316
Food	-	131,316	131,316	-	-	-	131,316	72,351
Rental of space	85,430	-	85,430	3,170	-	3,170	88,600	119,600
Rental of space - amortization	52,476	-	52,476	-	-	-	52,476	14,205
Rental of space - interest	14,808	-	14,808	-	-	-	14,808	2,185
Utilities and maintenance	81,798	-	81,798	981	-	981	82,779	102,198
Insurance	39,065	-	39,065	12,918	-	12,918	51,983	52,447
Depreciation	66,794	-	66,794	-	-	-	66,794	62,018
Other expenses	88,612	-	88,612	39,518	-	39,518	128,130	206,464
Disposal on assets	7,602	-	7,602	-	-	-	7,602	14,675
In-kind expenses	<u>525,774</u>	<u>-</u>	<u>525,774</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>525,774</u>	<u>412,854</u>
	<u>\$ 3,302,952</u>	<u>\$ 295,725</u>	<u>\$ 3,598,677</u>	<u>\$ 341,069</u>	<u>\$ 10,286</u>	<u>\$ 351,355</u>	<u>\$ 3,950,032</u>	<u>\$ 3,623,276</u>

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



**NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.**

STATEMENT OF CASH FLOWS  
YEAR ENDED OCTOBER 31, 2022  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED OCTOBER 31, 2021

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 124,929	\$ 63,266
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	66,794	62,018
Amortization	52,476	14,205
(Increase) decrease in assets:		
Grants receivable - U.S. Department of Health and Human Services	(78,387)	222,763
Grants receivable - State - Department of Education	11,011	(27,506)
Increase (decrease) in liabilities:		
Accounts payable	5,910	(68,090)
Accrued payroll	-	(49,843)
Accrued payroll liabilities	38	(204)
Contracts payable	3,210	(5,013)
Unearned revenue	<u>40,071</u>	<u>(53,431)</u>
Net cash provided by (used in) operating activities	<u>226,052</u>	<u>158,165</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of leased assets	(852,495)	(158,064)
Purchase of property and equipment	(206,356)	(143,327)
Book value of property and equipment disposed of	<u>14,634</u>	<u>18,043</u>
Net cash provided by (used in) investing activities	<u>(1,044,217)</u>	<u>(283,348)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Leases payable issued	852,495	158,064
Principle payments on leases payable	<u>(52,476)</u>	<u>(14,205)</u>
Net cash provided by (used in) financing activities	800,019	143,859.00
Change in cash	(18,146)	18,676
Cash, Beginning of year	<u>18,293</u>	<u>(383)</u>
Cash (Checks in excess of funds available), End of year	<u>\$ 147</u>	<u>\$ 18,293</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest - leases payable	<u>\$ 14,808</u>	<u>\$ 2,185</u>

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

# **NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.**

## **NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2022**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Nature of Business**

Northeast South Dakota Head Start Program, Inc. (a nonprofit organization), was organized as a nonprofit corporation in 1987. The Program was formed to develop and provide comprehensive early child development for disadvantaged pre-school children and their families. The Program is primarily supported through grants from federal and state governments. Approximately 98% of the Program's grant revenue is received from the Department of Health and Human Services' Head Start funds.

#### **Basis of Accounting**

The financial statements of the Program have been prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles in the United States of America (GAAP), following the recommendations of the Financial Accounting Standards Board (FASB).

The FASB requires the Program to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

#### **Comparative Financial Information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Program's financial statements for the year ended October 31, 2021, from which the summarized information was derived.

#### **Classification of Net Assets**

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Program and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets that are free of donor or grantor-imposed stipulations are included in net assets without donor restrictions and are available for operating purposes under the direction of the Board or invested in property and equipment.

## **NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.**

### **NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2022**

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

##### **Classification of Net Assets, continued**

*Net Assets With Donor Restrictions* – Net assets subject to donor or certain grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor or grantor. Other donor or grantor-imposed restrictions are perpetual in nature, where the donor stipulates that resources will be maintained in perpetuity. Donor or grantor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Resources with restrictions that are fulfilled within the same fiscal period are reported as net assets without donor restrictions.

Currently, the Program does not have any net assets with donor restrictions.

##### **Functional Allocation of Expenses**

The costs of program activities and supporting services have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program activities and supporting services benefited.

##### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### **Cash and Cash Equivalents**

For financial statement reporting purposes, the Program includes all cash accounts not subject to withdrawal restrictions or penalties, treasury bills, commercial paper and money market funds with a term to maturity of three months or less when purchased to be cash equivalents. Certificates of deposit, regardless of maturity, are not considered to be cash and cash equivalents.

## **NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.**

### **NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2022**

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

##### **Property and Equipment**

Vehicles and equipment are stated at cost, if purchased, or at fair value at the date of gift, if donated, less accumulated depreciation. Depreciation is provided for using the straight-line method over the estimated useful life of the asset. The Program considers items with a cost greater than \$5,000 and a useful life greater than one year to be property and equipment.

Property and equipment purchased with grant funds are owned by the Program while used in the Program for which they were purchased or in other future authorized programs. However, the various funding sources have a reversionary interest in the property and equipment purchased with grant funds. Its disposition, as well as the ownership of any proceeds therefrom, is subject to funding source regulations. The property and equipment purchased with grant funds are normally restricted for use in specific programs operated by the Program.

##### **Leased Assets**

Leased assets are recorded at the discounted present value of the underlying lease payable. All acquisitions of leased assets valued in excess of \$5,000 are capitalized. Amortization is provided using the discounted present value over the life of the lease payable.

##### **Grants and Contracts**

Support received under grants and contracts is recognized as revenue when the related expenses are incurred and is reported as an increase in net assets without donor restrictions if the restrictions are met in the same fiscal year the grants and contracts are received. Grants receivable includes amounts receivable under grants and contracts and represents amounts due for expenses incurred prior to year end.

##### **In-Kind Contributions**

The Program has recorded in-kind contributions for space, supplies, and professional services in the statement of activities in accordance with GAAP. GAAP requires that only contributions of services received that create or enhance a nonfinancial asset or require specialized skill by the individual possessing those skills and would typically need to be purchased if not provided by donation be recorded. The requirements of GAAP are different than the in-kind requirements of the Program's grant award.

## **NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.**

### **NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2022**

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

##### **In-Kind Contributions, continued**

The Program received contributions of nonprofessional volunteers and consultants during the year with a value of \$211,179 for its Head Start program, which are not recorded in the statement of activities.

##### **Federal Income Taxes**

Northeast South Dakota Head Start Program, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Consequently, no provision for federal income tax has been included in the financial statements. In addition, the Program qualifies for the charitable contribution deduction under section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

##### **Leases Payable**

The Program recognizes a lease liability and an intangible right-to-use lease asset (leases asset) in the financial statements. The Program recognizes lease liabilities with an initial individual value of \$5,000.

At commencement of a lease, the Program initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease present liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the leased asset is amortized on a discounted present value over the life of the lease payable.

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

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

# **NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.**

## **NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2022**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

#### **Leases Payable, continued**

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

#### **Fundraising Activity**

The Program does not maintain a formal fundraising or solicitation department. Currently, it does not conduct fundraising campaigns, door-to-door solicitations, telethons, mass mailings or special fundraising events. The program directors do, however, compile data and applications necessary to renew and obtain new grants.

#### **Reclassification**

Certain reclassifications of amounts previously reported have been made in the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

#### **Implementation of New Accounting Standard**

In 2022, the Program implemented the provisions of FASB ASU 2016-02, *Leases* (Topic 842). ASU 2016-02 affects any entity that enters into a lease. The main difference between previous US GAAP and ASU 2016-02 is the recognition of an intangible lease asset and lease liability for the lessee and the recognition of a lease receivable and an unearned revenue for the lessor. There was no effect on the beginning net position as a result of implementation of the standard.

### **2. LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the financial position date, comprise the following:

Cash	\$ 147
Receivables	<u>166,530</u>
	<u>\$ 166,677</u>

**NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.**

**NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2022**

**3. CONCENTRATION OF CREDIT RISK**

The Program maintains cash balances at one financial institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of October 31, 2022, the Program had no uninsured cash balances.

**4. LEASES PAYABLE**

Lease payables consist of the followings:

Office Space Lease, 4% discount rate, due in monthly installments of \$6,597, final maturity August 2027.	\$ 347,387
Building/Parking Area Lease, 4% discount rate, due in monthly installments of varying amount, final maturity May 2032.	477,802
Lots 14 and 15 lease, 4% discount rate, due in monthly installments of \$1,595, final maturity August 2031.	142,231
Living center lease, 4% discount rate, due in monthly installments of \$1,100, final maturity August 2024.	<u>23,297</u>
Total leases payable	990,717
Less: current portion	<u>(127,130)</u>
	<u><u>\$ 863,587</u></u>

# NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.

## NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2022

### 4. LEASES PAYABLE, continued

Maturity of the lease payables is as follows:

Maturities					
	Office lease	Building/ Parking area	Lots 14 and 15	Living Center	Total
2023	\$ 66,479	\$ 34,456	\$ 13,700	\$ 12,496	\$ 127,130
2024	69,187	37,694	14,258	10,801	131,940
2025	72,006	41,063	14,839	-	127,907
2026	74,939	44,569	15,444	-	134,952
2027	64,777	48,218	16,073	-	129,068
Thereafter	-	271,803	67,917	-	339,720
	<u>\$ 347,387</u>	<u>\$ 477,802</u>	<u>\$ 142,231</u>	<u>\$ 23,297</u>	<u>\$ 990,717</u>

### 5. CONCENTRATION OF REVENUE SOURCES

Approximately 98% of the Program's revenue is derived from grants from the US Department of Health and Human Services. The current level of the Program's operations and program services may be impacted, or segments discontinued if the funding is not renewed.

### 6. RISK MANAGEMENT

The Program is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the period ended October 31, 2022, the Program managed its risks as follows:

#### **Employee Health Insurance**

The Program purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

#### **Liability Insurance**

The Program purchases liability insurance for risks related to torts, theft, or damage to property and for errors and omissions of directors and officers from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.



**NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.**

**NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2022**

**6. RISK MANAGEMENT, continued**

The Program purchases liability insurance for worker's compensation from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

**Unemployment Benefits**

The Program provides coverage for unemployment benefits by paying into the unemployment compensation fund established by state law and managed by the State of South Dakota.

**7. RETIREMENT PLAN**

The Program maintains a 401(k) Retirement Plan for its employees. The Program will match 75 cents per employee dollar contribution for all eligible employees to a maximum of \$6,000 or 6% of employee annual earnings. Plan eligibility requires the employee to attain the age of 21 and one year of service. Retirement plan expense for the year ended October 31, 2022, was \$42,667.

**8. SUBSEQUENT EVENTS**

Events occurring after October 31, 2022, were evaluated by management through July 26, 2023, the date which the financial statements were available to be issued, to ensure that any subsequent events that met the criteria for recognition and/or disclosure in these financial statements have been included. There are no significant subsequent events needing disclosure.

## SUPPLEMENTARY INFORMATION

**NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.**

SCHEDULE OF PROGRAM ACTIVITY - REGULATORY BASIS  
YEAR ENDED OCTOBER 31, 2022

	<u>DOA</u>	<u>Department of Health and Human Services</u>				
	<u>10.558</u>	<u>93.600</u>				
	<u>Child &amp; Adult Care Food Program</u>	<u>Full-Year, Part-Day</u>	<u>Training and Tech. Assist.</u>	<u>COVID</u>	<u>In-Kind Elimination</u>	<u>Total Programs</u>
<b>REVENUE</b>						
Grant revenue	\$ 179,234	\$ 2,996,588	\$ 35,424	337,941	-	\$ 3,549,187
In-kind contributions	-	756,490	-	-	(19,537)	736,953
<b>Total Revenue</b>	<u>179,234</u>	<u>3,753,078</u>	<u>35,424</u>	<u>337,941</u>	<u>(19,537)</u>	<u>4,286,140</u>
<b>EXPENSES</b>						
Wages and salaries	-	1,796,999	-	76,505	-	1,873,504
In-kind expenses	-	756,490	-	-	(19,537)	736,953
Fringe benefits	-	361,370	-	53	-	361,423
Vehicles/equipment	-	10,325	-	189,000	-	199,325
Other	-	97,034	22,899	8,197	-	128,130
Supplies	47,918	171,993	380	32,141	-	252,432
Rental of space	-	155,884	-	-	-	155,884
Payroll taxes	-	148,212	-	5,984	-	154,196
Travel/transportation	-	137,401	12,145	8,669	-	158,215
Occupancy	-	65,387	-	17,392	-	82,779
Insurance/bonding	-	51,983	-	-	-	51,983
Food	131,316	-	-	-	-	131,316
<b>Total Expenses</b>	<u>179,234</u>	<u>3,753,078</u>	<u>35,424</u>	<u>337,941</u>	<u>(19,537)</u>	<u>4,286,140</u>
<b>Change in Net Assets</b>	-	-	-	-	-	-
Net Assets - Beginning of Year	-	(3,829)	3,289	-	-	-
<b>NET ASSETS - End of Year</b>	<u>\$ -</u>	<u>\$ (3,829)</u>	<u>\$ 3,289</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Independent Auditor's Report

**NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED OCTOBER 31, 2022

<b>Federal Grantor/Pass-Through Grantor Program or Cluster Title</b>	<b>Assistance Listing Number</b>	<b>Award Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Disbursements/ Expenditures</b>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Head Start Cluster:				
Direct Funding:				
Head Start - Full-Year, Part-Day	93.600	08CH010345-06		\$ 2,996,588
Head Start - Training and Technical Assistance	93.600	08CH010345-06		35,424
Head Start - COVID	93.600	08HE000846-01-00		23,290
Head Start - COVID	93.600	08HE000846-01-01		<u>314,651</u>
Total Head Start Cluster:				<u>3,369,953</u>
Total U.S. Department of Health and Human Services				<u>3,369,953</u>
U.S. DEPARTMENT OF AGRICULTURE				
Passed through the S.D. Department of Education:				
Child Care and Adult Care Food Program	10.558		LA064110	<u>179,234</u>
Total U.S. Department of Agriculture				<u>179,234</u>
Total Federal Awards				<u>\$ 3,549,187</u>

**NOTE 1: BASIS OF PRESENTATION:**

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of Northeast South Dakota Head Start Program, Inc. (the Program) under programs of the federal government for the year ended October 31, 2022. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the Program, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Program.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

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

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

See Independent Auditor's Report

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 Board of Directors  
Northeast South Dakota Head Start Program, Inc.  
Aberdeen, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northeast South Dakota Head Start Program, Inc. (a nonprofit organization), which comprise the statement of financial position as of October 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 26, 2023.

***Report on Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Northeast South Dakota Head Start, Inc.'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 an opinion on the effectiveness of Northeast South Dakota Head Start, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Northeast South Dakota Head Start, Inc.'s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness or significant deficiencies may exist that were not identified.

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## ***Report on Compliance and Other Matters***

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northeast South Dakota Head Start Program, Inc.'s internal control and compliance. Accordingly, this report is not suitable for any other purpose.

*Wohlenberg Ritzman + Co., LLC*

Yankton, South Dakota  
July 26, 2023

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

To the Board of Directors  
Northeast South Dakota Head Start Program, Inc.  
Aberdeen, South Dakota

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited Northeast South Dakota Head Start Program, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of Northeast South Dakota Head Start Program Inc.'s major federal programs for the year ended October 31, 2022. Northeast South Dakota Head Start Program Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Northeast South Dakota Head Start, Inc. compiled, in all material respects, with the type of compliance requirements referred to above that could have a direct and material effect on each of its major programs for the year ended October 31, 2022.

***Basis for Opinion on Each Major Federal Program***

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

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

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### ***Responsibilities of Management for Compliance***

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

### ***Auditor's Responsibilities for the Audit of Compliance***

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

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

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



## Report on Internal Control Over Compliance

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

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

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

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

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

*Wohlberg Ritzman + Co., LLC*

Yankton, South Dakota  
July 26, 2023

**NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
YEAR ENDED OCTOBER 31, 2022**

**SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT**

There were no prior financial statement audit findings reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no prior federal award program findings reported.

**NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.**

**SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS  
YEAR ENDED OCTOBER 31, 2022**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes X no
- Significant deficiency(ies) identified? \_\_\_\_\_ yes X none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes X no
- Significant deficiency(ies) identified? \_\_\_\_\_ yes X none reported

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

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

Identification of major programs:

CFDA Numbers

93.600

Name of Federal Program or Cluster

Head Start

Dollar Threshold used to distinguish between Type A and Type B Programs: \$750,000

Auditee qualified as low-risk auditee? X yes \_\_\_\_\_ no

**NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.**

**SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS  
YEAR ENDED OCTOBER 31, 2022**

**SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT**

There are no financial statement audit findings.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There are no major federal award program findings.