

BLACK HILLS SPECIAL SERVICES COOPERATIVE

INDEPENDENT AUDITOR'S REPORTS,
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2020

CASEY  PETERSON
Leading the Way.

RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

Black Hills Special Services Cooperative
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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*

Board of Directors
Black Hills Special Services Cooperative
Sturgis, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of Black Hills Special Services Cooperative, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Black Hills Special Services Cooperative's basic financial statements, and have issued our report thereon dated January 21, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Black Hills Special Services Cooperative's internal control over financial reporting (internal control) as a basis for designing the 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 Black Hills Special Services Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of Black Hills Special Services Cooperative'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 weaknesses may exist that have not been identified.



Compliance and Other Matters

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

Purpose of this Report

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

Casey Peterson, LTD.

Casey Peterson, Ltd.

Rapid City, South Dakota

January 21, 2021

Independent Auditor's Report on Compliance for
Each Major Program and Report on Internal Control
over Compliance Required by the Uniform Guidance

Board of Directors
Black Hills Special Services Cooperative
Sturgis, South Dakota

Report on Compliance for Each Major Federal Program

We have audited Black Hills Special Services Cooperative's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Black Hills Special Services Cooperative's major federal programs for the year ended June 30, 2020. Black Hills Special Services Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Black Hills Special Services Cooperative's major federal programs based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Black Hills Special Services Cooperative's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Black Hills Special Services Cooperative's compliance.

Opinion on Each Major Federal Program

In our opinion, Black Hills Special Services Cooperative complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.



Report on Internal Control over Compliance

Management of Black Hills Special Services Cooperative is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Black Hills Special Services Cooperative's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Black Hills Special Services Cooperative's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record, and its distribution is not limited.



Casey Peterson, Ltd.

Rapid City, South Dakota

January 21, 2021

**Black Hills Special Services Cooperative
Schedule of Findings and Questioned Costs
June 30, 2020**

SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

- a. The Independent Auditor's Report expresses an unmodified opinion on the financial statements of Black Hills Special Services Cooperative.
- b. No significant deficiencies or material weaknesses in internal control relating to the audit of the financial statements are reported in the 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*.
- c. There was no noncompliance material to the financial statements, which would be required to be reported in accordance with *Government Auditing Standards*.
- d. The independent auditor's report on compliance for the major federal award programs for Black Hills Special Services Cooperative expresses an unmodified opinion on all major federal programs.
- e. No significant deficiencies or material weaknesses in internal control related to major federal programs are reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance.
- f. No noncompliance related to major federal programs is reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance.
- g. No audit findings required to be reported in accordance with 2 CFR section 200.516(a) are reported within this schedule.
- h. The federal awards tested as major programs were:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
1. 93.464	ACL Assistive Technology
2. 84.287	Twenty-First Century Community Learning Centers

- i. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$750,000.
- j. Black Hills Special Services Cooperative qualified as a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

None reported.

FINDINGS - MAJOR FEDERAL PROGRAMS AUDIT

None reported.



PO Box 218 • Sturgis, SD 57785 • (605) 347-4467 • bhssc.org

PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

FINDINGS - FINANCIAL STATEMENT AUDIT

None reported.

FINDINGS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None reported.

Independent Auditor's Report

Board of Directors
Black Hills Special Services Cooperative
Sturgis, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of Black Hills Special Services Cooperative, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the 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 and the general fund of Black Hills Special Services Cooperative as of June 30, 2020 and the respective changes in financial position 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 Schedule - General Fund - Budgetary Basis, Schedule of Changes in Total OPEB Liability and Related Ratios, Schedule of the Cooperative's Proportionate Share of the Net Pension Liability (Asset), Schedule of Pension Contributions, and Notes to the Required Supplementary Information on pages 11 - 19, 46 - 47, 48, 49, 50, and 51 - 52, respectively, 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, which 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 Black Hills Special Services Cooperative's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The List of Cooperative Officials 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 January 21, 2021 on our consideration of Black Hills Special Services Cooperative'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 Black Hills Special Services Cooperative'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 Black Hills Special Services Cooperative's internal control over financial reporting and compliance.

Casey Peterson, LTD.

Casey Peterson, Ltd.

Rapid City, South Dakota

January 21, 2021, except for changes in the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund explained in Note 15, as to which the date is February 11, 2021

**Black Hills Special Services Cooperative
Management's Discussion and Analysis (Unaudited)
June 30, 2020**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Black Hills Special Services Cooperative's (BHSSC) annual financial report presents a discussion and analysis of the Cooperative's financial performance during the fiscal year ended on June 30, 2020. Please read it in conjunction with BHSSC's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- BHSSC's total net position from governmental activities decreased by \$1,505,208. The adjustment for the net pension liability (asset) of \$2,000,264 accounts for more than the entire decrease.
- BHSSC's change in net position from governmental activities decreased by \$1,505,208. Current assets increased \$487,497, which includes an increase in net pension asset of \$51,781. Capital assets increased by \$130,603. Total liabilities increased by \$69,324. There continues to be upfront funding for a project that is recognized as a liability.
- During the year, BHSSC's revenues generated from governmental programs were \$1,505,208 less than the \$27,195,902 governmental program expenditures.
- The total cost of BHSSC's programs decreased by 2.98%. The decrease in expenditures is due to the incorporation of expenses for the government-wide financial statements. The decrease is related to the change in pension activity and fluctuations in program activity from this year to the previous year.
- The Statement of Net Position reported a \$1,505,208 current-year deficit. This deficit is attributed to adjustment for the pension plan. Non-pension revenues were in excess of expenditures by \$495,056. Both revenues and expenditures were below budgeted levels.
- Capital purchases exceeded depreciation expenses by \$130,603. Net capital purchased totaled \$235,981 and no assets were disposed of. Vehicles made up the capital assets that were purchased during the year. Leasing is used as an alternative to the purchase of capital assets.
- Compensated absences, also known as accrued leave, decreased by \$18,287. The number of employees carrying a leave balance decreased by 15.65%. The total number of hours that those employees were carrying decreased by 16.83%. The decrease in leave balances is attributed to the decrease in staff with leave balances.
- Outstanding obligations include net OPEB (Other Post Employment Benefits) obligation for post-employment healthcare of \$37,968, which is a \$1,394 decrease from the prior year. This obligation will continue to decrease until all participants qualify for Medicare benefits. Effective September 1, 2019, employees retiring on or after this date are no longer eligible to receive these benefits. The eligible retirees must pay the monthly premium.

See independent auditor's report.

**Black Hills Special Services Cooperative
Management's Discussion and Analysis (Unaudited)
June 30, 2020**

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of BHSSC:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about BHSSC's overall financial status.
- The remaining statements are fund financial statements that focus on individual programs, reporting operations in more detail than the government-wide statements.
- The governmental funds statements tell how general services were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Figure A-1 summarizes the major features of these financial statements, including the portion of the government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1		
	Government-wide Statements	Fund Statements Governmental Funds
Scope	Entire BHSSC government (except fiduciary funds and BHSSC's component units)	The activities of BHSSC that are not proprietary or fiduciary, such as elementary and high school education programs
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Statement of Revenues, Expenditures and Changes in Fund Balances
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of Asset/Liability Information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; all deferred outflows and inflows of resources; no capital assets included
Type of Inflow/Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

See independent auditor's report.

Black Hills Special Services Cooperative Management's Discussion and Analysis (Unaudited) June 30, 2020

Government-wide Financial Statements

The government-wide statements report information about BHSSC as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of 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 BHSSC's net position and how it has changed. Net position (the difference between BHSSC's assets and liabilities) is one way to measure BHSSC's financial position.

- Increases or decreases in BHSSC's net position are indicators of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of BHSSC you need to consider additional nonfinancial factors such as changes in programs and changes in funding.

The government-wide financial statements of BHSSC are reported in the governmental activities category:

- *Governmental Activities* - This category includes BHSSC's basic instructional services, such as special education, alternative education, and residential programs, support services (social work, guidance counselor, nursing, psychology, speech pathology, physical and occupational therapy, improvements of instruction, Board of Education, administration, fiscal, operation and maintenance of plant services, and transportation services). Tuition, contracts for services, state contracts and grants, federal grants, and interest earnings finance these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about BHSSC's general fund. Funds are accounting devices used to keep track of specific sources of funding and spending for particular purposes. Fund accounting is required by South Dakota State Law.

BHSSC's operations fall under the governmental fund type.

Governmental Funds - All of BHSSC's basic services are included in the governmental fund which focuses on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance BHSSC's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.

See independent auditor's report.

**Black Hills Special Services Cooperative
Management's Discussion and Analysis (Unaudited)
June 30, 2020**

FINANCIAL ANALYSIS OF BHSSC AS A WHOLE

Net Position

BHSSC's combined Statement of Net Position shows a decrease from the previous year.

**Table A-1
Black Hills Special Services Cooperative
Statement of Net Position**

	Governmental Activities 2019	Governmental Activities 2020	Total Percentage Change
Current and Other Assets	\$ 5,902,538	\$ 6,390,035	8.26%
Capital Assets	<u>388,065</u>	<u>518,668</u>	33.65%
Total Assets	<u>\$ 6,290,603</u>	<u>\$ 6,908,703</u>	9.83%
Deferred Outflows of Resources	<u>\$ 5,337,242</u>	<u>\$ 3,517,665</u>	-34.09%
Long-term Debt Outstanding	\$ 217,787	\$ 198,106	-9.04%
Other Liabilities	<u>1,962,473</u>	<u>2,051,478</u>	4.53%
Total Liabilities	<u>\$ 2,180,260</u>	<u>\$ 2,249,584</u>	3.18%
Deferred Inflows of Resources	<u>\$ 1,123,278</u>	<u>\$ 1,357,685</u>	20.87%
Net Position:			
Net Investment in Capital Assets	\$ 388,065	\$ 518,668	33.65%
Restricted	4,216,390	2,216,126	-47.44%
Unrestricted	<u>3,719,852</u>	<u>4,084,305</u>	9.80%
Total Net Position	<u>\$ 8,324,307</u>	<u>\$ 6,819,099</u>	-18.08%

BHSSC's increase in total assets can be contributed to an increase in current assets, primarily in the cash and cash equivalents which is offset by a decrease in due from other governments. Net pension asset increased from the prior year. Capital assets also saw increases, mainly due to purchases of new vehicles. The increase in total liabilities was due to an increase in unearned revenue. The increase in total assets, decrease in deferred outflows of resources, and increase total liabilities and deferred inflows of resources nets to a decrease of \$1,505,208, which results in a net position of \$6,819,099. The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The long-term liabilities of BHSSC, consisting of compensated absences payable and OPEB liability have been reported in this same manner on the Statement of Net Position. The difference between BHSSC's assets and liabilities is its net position.

See independent auditor's report.

**Black Hills Special Services Cooperative
Management's Discussion and Analysis (Unaudited)
June 30, 2020**

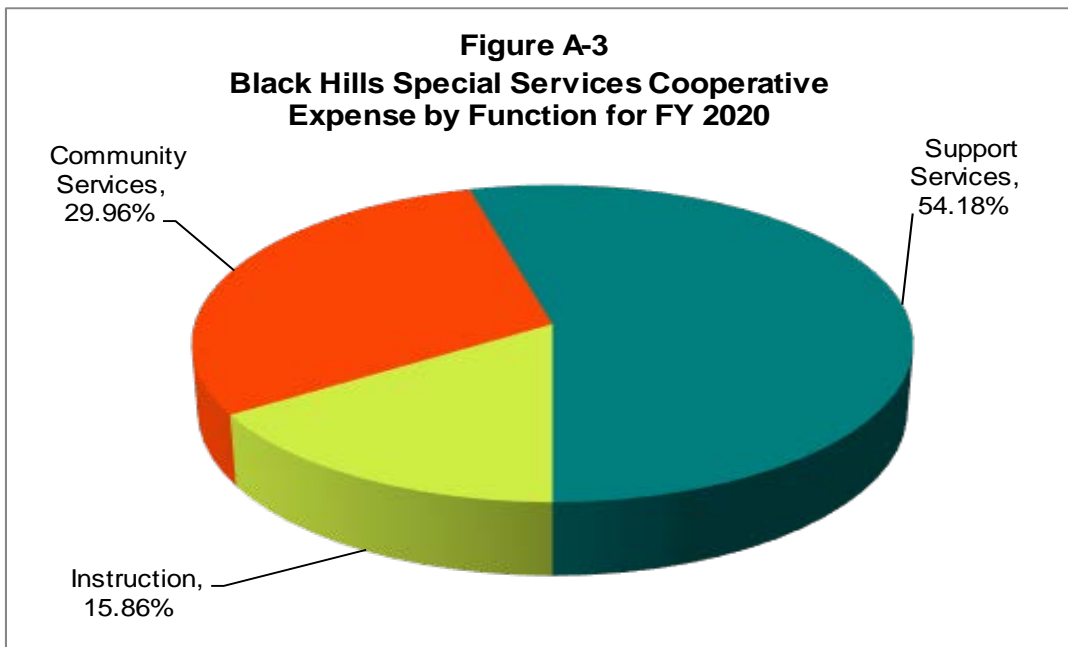
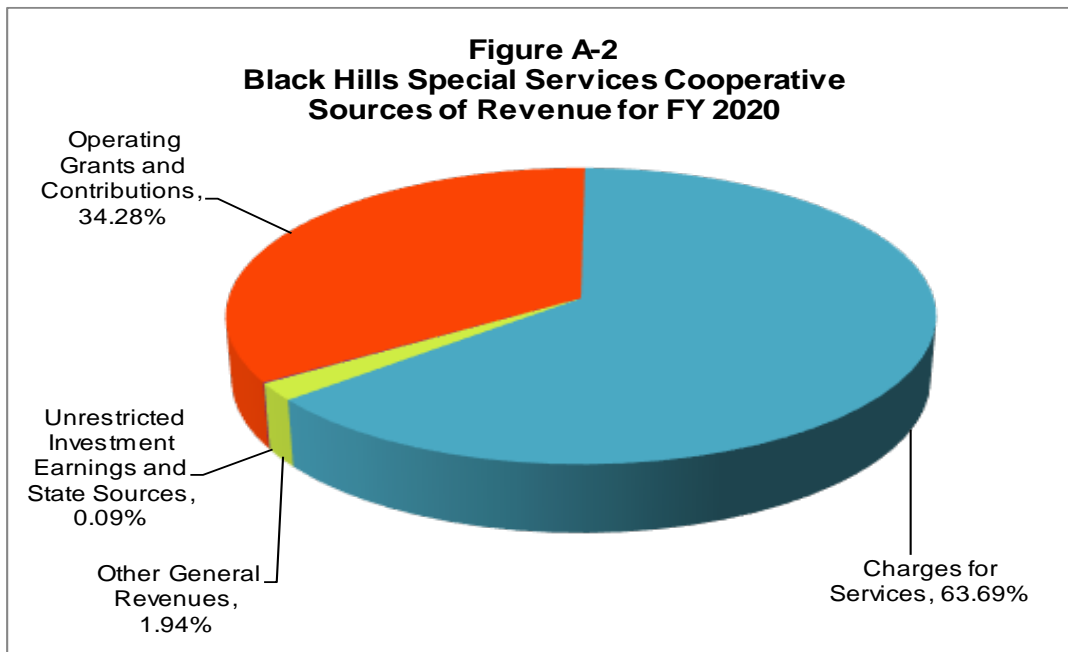
Changes in Net Position

BHSSC's revenues totaled \$25,690,694. (See Figure A-2.) Over 63% of BHSSC's program revenue continues to come from charges for services. Almost 35% of the revenue is derived from operating grants and contributions (federal, state and local sources) and the remaining 2% comes from other general revenues. Operating grants and contributions were down over 13% while charges for services were up nearly 2%. State and federal sources were up 100% due to better allocation of revenues and other general revenue was up almost 10% from last year (See Table A-2). BHSSC's total revenues decreased by 5.15%. The changes in sources between 2019 and 2020 were due to a change in the distribution assignment of those sources. The availability of grant sources continues to become more limited. Continuing to provide and expand contracted services to local districts and the state helps to maintain local and state sources.

See independent auditor's report.

Black Hills Special Services Cooperative Management's Discussion and Analysis (Unaudited) June 30, 2020

BHSSC's expenses cover a range of services, encompassing instruction, support services, and community services. (See Figure A-3). The total cost of all programs decreased by 2.98%. Personnel costs and program costs decreased slightly due to the discontinuance of various programs. Purchased services were relatively unchanged as were expenditures for supplies and materials and other expenditures. BHSSC's administrative and business activities, plus operation and maintenance of facilities and transportation costs decreased to 3.03% of total allowable costs. Total expenditures decreased and administrative expenses decreased, resulting in a decrease in the administration's share of overall expenses.



See independent auditor's report.

**Black Hills Special Services Cooperative
Management's Discussion and Analysis (Unaudited)**

June 30, 2020

GOVERNMENTAL ACTIVITIES

Table A-2 considers the operations of the governmental activities.

**Table A-2
Black Hills Special Services Cooperative
Changes in Net Position**

	Total Governmental Activities 2019	Total Governmental Activities 2020	Total Percentage Change 2019-2020
Revenues			
Program Revenues:			
Charges for Services	\$ 16,638,865	\$ 16,363,111	-1.66%
Operating Grants and Contributions	9,965,722	8,806,826	-11.63%
General Revenues:			
Federal Sources	-	-	0.00%
State Sources	-	9,750	0.00%
Unrestricted Investment Earnings	30,047	12,458	-58.54%
Other General Revenues	<u>451,934</u>	<u>498,549</u>	10.31%
Total Revenues	<u>\$ 27,086,568</u>	<u>\$ 25,690,694</u>	-5.15%
Expenses:			
Instruction	\$ 4,431,889	\$ 4,313,658	-2.67%
Support Services	15,714,446	14,734,114	-6.24%
Community Services	7,878,874	8,148,130	3.42%
Nonprogrammed Charges	<u>5,069</u>	<u>-</u>	0.00%
Total Expenses	<u>28,030,278</u>	<u>27,195,902</u>	-2.98%
Decrease in Net Position	<u>\$ (943,710)</u>	<u>\$ (1,505,208)</u>	59.50%

FINANCIAL ANALYSIS OF BHSSC'S FUNDS

The General Fund increased by \$999,897 in the current year after the year-end adjustments for fund statement presentation. The management team continues to meet regularly to review budgets, income, and program expenditures. The monthly report that summarizes expenditures to date, revenues to date, and projected receivables, continues to facilitate this process. Directors receive the report each month, and the report is reviewed by the management team at their regularly scheduled meetings.

BUDGETARY HIGHLIGHTS

The budget for revenues and expenditures totaled \$28,644,515. Over the course of the year, the Board revised the budget one time. This amendment was for additional contracts and grants awarded during the year.

See independent auditor's report.

**Black Hills Special Services Cooperative
Management's Discussion and Analysis (Unaudited)
June 30, 2020**

BHSSC's final budget for the General Fund anticipated that revenues and expenditures would be equal, the actual results for the year was a \$999,897 surplus before the fund statement adjustments.

- Revenues were \$2,483,018 lower than budgeted before adjustments. Revenues from state sources, federal sources, and local sources decreased.
- Expenditures were \$3,521,265 lower than budgeted before adjustments. Expenditures were less than budgeted in each function; instruction, support, and community services. The decrease in expenditures is attributed to the discontinuation of several smaller programs within each area.

CAPITAL ASSET ADMINISTRATION

By the end of 2020, BHSSC had a \$518,668 net investment in capital assets, including various machinery and equipment. (See Table A-3.) This amount represents a net increase (including additions and deletions) of \$130,603, or 33.65%.

**Table A-3
Black Hills Special Services Cooperative
Capital Assets
(Net of Depreciation)**

	Governmental Activities 2019	Governmental Activities 2020
Machinery and Equipment	\$ 388,065	\$ 518,668
Total Capital Assets (Net)	\$ 388,065	\$ 518,668

Capital assets purchased were vehicles. More capital purchases were made during the year than in the previous year. However, that increase was slightly offset by annual depreciation expense.

LONG-TERM DEBT

At year-end, BHSSC had \$198,106 in outstanding debt. The 2020 balance of the OPEB liability decreased by \$1,394, or 3.54%, from the prior year due to decreases in participant enrollment. See Note 12 for more information. Overall, long-term debt decreased by \$18,287, which is contributed to a decrease in compensated absences. Compensated absences were down 10.25%. There was a net decrease of 9.04% as shown on Table A-4 below.

**Table A-4
Black Hills Special Services Cooperative
Outstanding Debt and Obligations**

	Governmental Activities 2019	Governmental Activities 2020	Total Dollar Change FY 2020	Total Percentage Change FY 2020
Compensated Absences	\$ 178,425	\$ 160,138	\$ (18,287)	-10.25%
OPEB Liability	39,362	37,968	(1,394)	-3.54%
Total Outstanding Debt and Obligations	\$ 217,787	\$ 198,106	\$ (19,681)	-9.04%

See independent auditor's report.

**Black Hills Special Services Cooperative
Management's Discussion and Analysis (Unaudited)
June 30, 2020**

BHSSC is liable for the accrued annual leave payable to the Class 2 salaried and paid personal leave for Class 4 hourly employees. The maximum accumulated leave is capped at 160 hours for Class 2 and 240 hours for Class 4 employees.

The OPEB liability is required to be reevaluated every two years. A valuation of the plan was conducted during fiscal year 2018.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

BHSSC's current economic position has remained stable from the previous fiscal year. BHSSC's programs have been minimally affected by the COVID-19 pandemic. While uncertainty remains with the on-going pandemic, BHSSC has experienced an increase in need for services to our districts and state departments. This has primarily been in our TIE and Health and Human Services Divisions. Local school districts continue to face challenges to provide quality education with insignificant increases in funding and increased federal regulations, the districts' and the state's benefit from services provided by BHSSC, increasing demand for those services. BHSSC's indirect cost rates for those services continues to remain constant and are anticipated to have a slight decrease for the next year. BHSSC does not have the authority to tax or bond. BHSSC is also not eligible for state aid with the current formula. BHSSC's Title XIX/HCBS population remains stable; however, the funding structure for Title XIX/HCBS will change in the coming years. Funding from the state to school districts is also relatively stable. The funding to schools in the upcoming year is proposed to have a slight increase. Federal funding sources for current programs are not anticipated to change in the upcoming year. The cost of providing health insurance to staff saw a slight increase this year. The healthcare plan is anticipating that it should only have a minimal, if any, increase in the next year. The overall budget for next year is anticipated to have an increase due to increased demands for BHSSC's services due to COVID-19.

CONTACTING BHSSC'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of BHSSC's finances and to demonstrate BHSSC's accountability for the money it receives. If you have questions about this report or need additional information, contact BHSSC's Business Office, P.O. Box 218, Sturgis, SD 57785.

See independent auditor's report.

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BASIC FINANCIAL STATEMENTS

Black Hills Special Services Cooperative
Statement of Net Position
June 30, 2020

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 3,701,551
Accounts Receivable	279,471
Due from Other Governments	2,342,369
Capital Assets:	
Machinery and Equipment	1,450,726
Less: Accumulated Depreciation	<u>(932,058)</u>
Total Capital Assets, Net of Depreciation	<u>518,668</u>
Restricted Assets:	
Net Pension Asset	<u>66,644</u>
TOTAL ASSETS	<u>6,908,703</u>
DEFERRED OUTFLOWS OF RESOURCES	
OPEB-related Deferred Outflows	10,498
Pension-related Deferred Outflows	<u>3,507,167</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>3,517,665</u>
LIABILITIES	
Accounts Payable	644,745
Unearned Revenue	1,406,733
Long-term Liabilities:	
Due Within One Year	160,138
Due In More Than One Year	<u>37,968</u>
TOTAL LIABILITIES	<u>2,249,584</u>
DEFERRED INFLOWS OF RESOURCES	
Pension-related Deferred Inflows	<u>1,357,685</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,357,685</u>
NET POSITION	
Net Investment in Capital Assets	518,668
Restricted:	
Proportionate Share of Net Pension Asset	2,216,126
Unrestricted	<u>4,084,305</u>
TOTAL NET POSITION	<u><u>\$ 6,819,099</u></u>

The accompanying notes are an integral part of this statement.

**Black Hills Special Services Cooperative
Statement of Activities
For the Year Ended June 30, 2020**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary Government:				
Governmental Activities:				
Instruction	\$ 4,313,658	\$ 2,475,638	\$ 3,671,939	\$ 1,833,919
Support Services	14,734,114	7,191,632	4,206,557	(3,335,925)
Community Services	8,148,130	6,695,841	928,330	(523,959)
Total Governmental Activities	\$ 27,195,902	\$ 16,363,111	\$ 8,806,826	(2,025,965)
GENERAL REVENUES				
				9,750
				12,458
				498,549
				520,757
				DECREASE IN NET POSITION
				(1,505,208)
				NET POSITION - BEGINNING
				8,324,307
				NET POSITION - ENDING
				\$ 6,819,099

The accompanying notes are an integral part of this statement.

**Black Hills Special Services Cooperative
Balance Sheet - Governmental Fund
June 30, 2020**

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 3,701,551
Accounts Receivable	279,471
Due from Other Governments	<u>2,342,369</u>
TOTAL ASSETS	<u>\$ 6,323,391</u>
LIABILITIES	
Accounts Payable	\$ 644,745
Unearned Revenue	<u>1,406,733</u>
Total Liabilities	<u>2,051,478</u>
DEFERRED INFLOWS OF RESOURCES	
Grants Received Outside the Period of Availability	<u>48,521</u>
FUND BALANCE	
Unassigned	<u>4,223,392</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 6,323,391</u>

The accompanying notes are an integral part of this statement.

**Black Hills Special Services Cooperative
Reconciliation of the Governmental Fund Balance
Sheet to the Statement of Net Position
June 30, 2020**

Total Fund Balance - Governmental Fund	\$ 4,223,392
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 governmental funds.	518,668
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consisted of:	
Compensated Absences	(160,138)
Net OPEB Obligation	(37,968)
Assets, including grants and other receivables that are not available to pay for current period expenditures, are deferred in the governmental funds.	48,521
Net pension asset reported in the governmental activities is not an available financial resource and, therefore, is not reported in the funds.	66,644
Pension-related deferred outflows are components of pension liability (asset) and, therefore, changes are not reported in the funds.	3,507,167
Pension-related deferred inflows are components of pension liability (asset) and, therefore, changes are not reported in the funds.	(1,357,685)
OPEB-related deferred inflows are components of the total OPEB liability and, therefore, are not reported in the funds.	<u>10,498</u>
Net Position - Governmental Activities	<u>\$ 6,819,099</u>

The accompanying notes are an integral part of this statement.

Black Hills Special Services Cooperative
Statement of Revenues, Expenditures and Changes in Fund Balance -
Governmental Fund
For the Year Ended June 30, 2020

	General Fund
REVENUES	
Revenue from Local Sources:	
Tuition and Fees	\$ 1,847,997
Transportation Fees	41,175
Earnings on Investments and Deposits	12,458
Other Revenue from Local Sources	14,947,870
Revenue from State Sources	4,650,334
Revenue from Federal Sources	<u>4,839,335</u>
Total Revenues	<u>26,339,169</u>
EXPENDITURES	
Instructional:	
Regular Programs	1,440,980
Special Programs	2,157,603
Adult Continuing Education Programs	<u>357,391</u>
Total Instructional	<u>3,955,974</u>
Support Services:	
Pupils	4,238,459
Instruction Staff	3,733,008
General Administration	1,305,969
Other Administrative Support Services	128,117
Business	1,836,806
Central	824,105
Special Education	637,535
Other Support Services	<u>876,432</u>
Total Support Services	<u>13,580,431</u>
Community Services	<u>7,528,538</u>
Capital Outlay	<u>235,979</u>
Total Expenditures	<u>25,300,922</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,038,247</u>

The accompanying notes are an integral part of this statement.

	<u>General Fund</u>
OTHER FINANCING SOURCES	
Proceeds from Insurance	<u>2,020</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	1,040,267
Change in Nonspendable Fund Balance	<u>(40,370)</u>
CHANGE IN FUND BALANCE	999,897
FUND BALANCE - BEGINNING	<u>3,223,495</u>
FUND BALANCE - ENDING	<u>\$ 4,223,392</u>

The accompanying notes are an integral part of this statement.

**Black Hills Special Services Cooperative
 Reconciliation of the Governmental Fund Statement of Revenues,
 Expenditures and Changes in Fund Balance to the Statement of Activities
 For the Year Ended June 30, 2020**

Net Change in Fund Balance, Prior to Change in Fund Balance Reserves - Governmental Fund	\$ 1,040,267
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>Governmental funds use the purchases method of accounting for inventory whereby changes in inventory are accounted for as a nonspendable fund balance and inventory is recorded as an expenditure when purchased. However, the governmental activities use the consumption method whereby inventory is recorded as an expense when consumed.</p>	(40,370)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.</p>	130,603
<p>The recognition of revenues in the governmental funds differs from the recognition in the governmental activities in the fact that revenue accruals in the fund financial statements require the amounts to be "available."</p>	(653,186)
<p>Governmental funds do not reflect the change in compensated absences and post employment benefits, but the Statement of Activities reflects the change in compensated absences and post employment benefits through expenses.</p>	17,741
<p>Pension revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.</p>	<u>(2,000,263)</u>
Change in Net Position - Governmental Activities	<u>\$ (1,505,208)</u>

The accompanying notes are an integral part of this statement.

Black Hills Special Services Cooperative
Notes to the Financial Statements
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Black Hills Special Services Cooperative are prepared in accordance with generally accepted accounting principles. Black Hills Special Services Cooperative applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A. REPORTING ENTITY

Black Hills Special Services Cooperative (the Cooperative) was established in 1980 as a joint venture among member school districts for the purpose of providing vital educational services for both youth and adults. The Board of Directors of the Cooperative is comprised of one representative from each member school district. The Board of Directors is responsible for adopting the Cooperative's budget and setting service fees at a level adequate to fund the adopted budget. The member school districts retain no equity interest in the net position of the Cooperative but do have a responsibility to fund deficits of the Cooperative in proportion to their relative participation. There are no component units included within the reporting entity.

B. RELATED ORGANIZATIONS

Related organizations are excluded from the financial reporting entity either because the Cooperative's accountability for these organizations does not extend beyond making appointments or because management has determined the assets the Cooperative has the ability to access are not significant. The Cooperative's only related organization is described below:

Black Hills Educational Benefits Cooperative Plan - The Cooperative participates in a cooperative service unit with several other school districts. See Note 9 for specific disclosure. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit but are discussed in these notes because of the nature of their relationship with the Cooperative.

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the Cooperative. These statements include the financial activities of the overall Cooperative. Governmental activities are generally financed through grants and other non-exchange transactions.

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

The Statement of Activities presents a comparison between direct expense and program revenues for each function of the Cooperative'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 are presented as general revenues.

Black Hills Special Services Cooperative
Notes to the Financial Statements
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. The funds are accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures. The Cooperative has one fund, which is classified as a governmental fund and therefore does not present proprietary or fiduciary fund categories.

D. FUND TYPES AND MAJOR FUND

An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is a primary operating fund of the Cooperative.

The Cooperative only has one fund. This fund is described below.

Governmental Funds

General Fund - The General Fund is established by South Dakota Codified Laws (SDCL) 13-16-3 to meet the general operational costs of the Cooperative. The General Fund is always a major fund.

E. 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, the governmental 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 the governmental fund types.

Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Cooperative gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenues from grants and donations are recognized in the fiscal year during which all eligibility requirements have been satisfied.

Fund Financial Statements

In the fund financial statements, the governmental fund is reported using the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Cooperative considers significant revenues reported in the governmental fund to be available if the revenues are collected within 90 days after year-end.

Black Hills Special Services Cooperative
Notes to the Financial Statements
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, and changes in the OPEB liability, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in the governmental fund. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. Under the terms of grant agreements, the Cooperative funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Cooperative's policy to first apply cost-reimbursement grant resources to such programs followed by general revenues.

F. ACCOUNTS RECEIVABLE

Accounts receivable are considered by management to be fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary.

G. CAPITAL ASSETS

Capital assets include a building, machinery, and equipment that are used in operations and that have initial useful lives extending beyond a single reporting period.

Government-wide Financial Statements

All capital assets are valued at historical cost or estimated historical cost if the actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Depreciation expense is calculated using the straight-line method. Depreciation of exhaustible fixed assets for machinery and equipment is recorded as an allocated expense in the Statement of Activities. The net capital assets are reflected in the Statement of Net Position.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the Statement of Net Position are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Machinery and Equipment	\$5,000	Straight line	5 - 15 yrs

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition.

H. LONG-TERM LIABILITIES

The accounting treatment of long-term liabilities differs between the government-wide and fund financial statements.

Government-wide Financial Statements

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements when incurred. The long-term liabilities consist of compensated absences, and other post-employment benefits (OPEB) liability. Note 12 provides more information on the OPEB liability. Accounting policies related to compensated absences payable are as follows:

Black Hills Special Services Cooperative
Notes to the Financial Statements
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Annual vacation is earned by salaried employees as outlined in their individual contracts. Vacation can be accrued up to 160 hours. Paid personal leave is earned by hourly employees based upon length of service. Paid personal leave can be accrued up to 240 hours. Upon termination, employees are entitled to receive compensation for their accrued vacation or paid personal leave balance.

Sick leave is earned by salaried employees per their individual contracts. Sick leave can be accrued to either 480 or 640 hours, depending on employment class. Upon termination, salaried and certified employees are not entitled to receive compensation for accrued sick leave balances.

Fund Financial Statements

In the fund financial statements, debt proceeds are reported as revenues, and payments of principal and interest are reported as expenditures when they become due. Compensated absences and OPEB obligations are recorded as expenditures when paid.

I. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

The Cooperative reports increases in net position that relate to future periods as deferred outflows of resources in a separate section of its government-wide Statement of Net Position. The only deferred outflows of resources reported are a deferred amount arising from the Cooperative's pension plan for qualified retirees (see Note 7) and a deferred amount arising from the Cooperative's OPEB plan (see Note 12). There are no deferred outflows of resources reported in the fund balance sheet.

The Cooperative's governmental funds report a separate section for deferred inflows of resources. This section reflects a decrease in net position that applies to a future period or periods. Under the modified accrual basis of accounting, governmental fund revenues are not recognized until available (collected no later than 90 days after the end of the Cooperative's fiscal year). The Cooperative reports earned but unavailable grants and charges for services as deferred inflows of resources in the governmental fund. The Cooperative reports pension-related deferred inflows of resources in the government-wide financial statements.

J. UNEARNED REVENUE

The governmental funds report various grants and payments received in advance of the eligibility criteria for revenue recognition as unearned revenue.

K. NET POSITION AND FUND BALANCE

Government-wide Financial Statements:

It is the Cooperative'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. Net position reported in the Statement of Net Position includes the following:

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 borrowings that are attributable to the acquisition, or improvement of those assets.

Restricted - Consists of net position with constraints placed on its 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.

Unrestricted - Represents all other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Black Hills Special Services Cooperative
Notes to the Financial Statements
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements:

The Cooperative classifies governmental fund balances as follows:

Nonspendable - Includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted - Constraints are placed on the use of resources by either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts that are constrained by the Cooperative's intent to be used for specific purposes but are not restricted. Amounts can be assigned by committees of the Board of Directors or management of the Cooperative.

Unassigned - Represents fund balance that has not been restricted or assigned.

The Cooperative uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents or contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Cooperative would first use assigned and then unassigned amounts of fund balance when expenditures are made.

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

L. PROGRAM REVENUE

In the Statement of Activities, reported program revenue is derived directly from the program itself or from other parties, as a whole. Program revenues are classified into two categories, as follows:

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.

Program Revenues - 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.

NOTE 2 - DEPOSITS AND INVESTMENTS

Statutes impose various restrictions on deposits and investments. These restrictions are summarized below:

Deposits - The Cooperative'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.

Black Hills Special Services Cooperative
Notes to the Financial Statements
June 30, 2020

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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

Credit Risk - State law limits eligible investments for the Cooperative, as discussed above. The Cooperative has no investment policy that would further limit its investment choices. As of June 30, 2020, the Cooperative did not have any investments.

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the Cooperative's deposits may not be returned to it. The Cooperative does not have a deposit policy for custodial credit risk.

Interest Rate Risk - The Cooperative 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.

NOTE 3 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments include reimbursements from state and federal grants and charges for services.

State of South Dakota	\$	2,186,955
Various School Districts		134,687
Miscellaneous Receivables		<u>20,727</u>
	\$	<u><u>2,342,369</u></u>

NOTE 4 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2020 is as follows:

	<u>Balance</u> <u>June 30, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2020</u>
Capital Assets Being Depreciated:				
Machinery and Equipment	\$ 1,214,745	\$ 235,981	\$ -	\$ 1,450,726
Less: Accumulated Depreciation				
Machinery and Equipment	<u>826,680</u>	<u>105,378</u>	<u>-</u>	<u>932,058</u>
Net Capital Assets	<u>\$ 388,065</u>	<u>\$ 130,603</u>	<u>\$ -</u>	<u>\$ 518,668</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 2,955
Support Services	100,539
Community Services	<u>1,884</u>
	<u>\$ 105,378</u>

Black Hills Special Services Cooperative
Notes to the Financial Statements
June 30, 2020

NOTE 5 - LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2020:

	Balance June 30, 2019	Increase	Decrease	Balance June 30, 2020	Due Within One Year
Compensated Absences	\$ 178,425	\$ 258,891	\$ 277,178	\$ 160,138	\$ 160,138
OPEB Liability	39,362	-	1,394	37,968	-
Total	<u>\$ 217,787</u>	<u>\$ 258,891</u>	<u>\$ 278,572</u>	<u>\$ 198,106</u>	<u>\$ 160,138</u>

NOTE 6 - OPERATING LEASES

Numerous operating leases exist for buildings, vehicles, and equipment which expire at various dates through 2024. Operating lease expense for the year ended June 30, 2020 was \$1,481,286. The Cooperative subleases a portion of the office space leased through an operating lease at one of its locations. The revenue received for the year ended June 30, 2020 was \$6,000.

The following are the minimum payments on existing operating leases:

Year Ending June 30,	Amount
2021	\$ 773,276
2022	77,299
2023	58,761
2024	2,658
2025	880

NOTE 7 - 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 are found in South Dakota Codified Law 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, PO 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.

Black Hills Special Services Cooperative
Notes to the Financial Statements
June 30, 2020

NOTE 7 - PENSION PLAN (CONTINUED)

Members hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members retiring 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 hired on or after July 1, 2017 are Generational members. Class A Generational members and Class B Generational judicial members retiring 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% joint and survivor benefit, or a 100% 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% 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 or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the third 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 third 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 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 Cooperative's share of contributions to the SDRS for the years ended June 30, 2020, 2019, and 2018, was \$807,664, \$804,279, and \$794,902, respectively, equal to the required contributions each year.

Black Hills Special Services Cooperative
Notes to the Financial Statements
June 30, 2020

NOTE 7 - PENSION PLAN (CONTINUED)

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

At June 30, 2019, SDRS was 100.09% funded and, accordingly, had a net pension asset. The proportionate share of the components of the net pension asset of South Dakota Retirement System, for the Cooperative as of the measurement period ending June 30, 2019 and reported by the Cooperative as of June 30, 2020 are as follows:

Proportionate Share of Total Pension Liability	\$ 78,372,685
Less: Proportionate Share of Net Pension Restricted for Pension Benefits	<u>78,439,329</u>
Proportionate Share of Net Pension Liability (Asset)	<u>\$ (66,644)</u>

At June 30, 2020, the Cooperative reported an asset of \$66,644 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2019, and the total pension asset used to calculate the net pension asset was based on a projection of the Cooperative's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2019, the Cooperative's proportion was .628% which is a decrease of 0.00839% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Cooperative recognized pension expense (reduction of pension expense) of \$2,000,264. At June 30, 2020, the Cooperative reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 261,420	\$ 30,164
Changes in Assumption	2,301,723	943,595
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	383,926
Changes in Proportion and Difference Between Cooperative Contributions and Proportionate Share of Contributions	136,610	-
Cooperative Contributions Subsequent to the Measurement Date	<u>807,414</u>	<u>-</u>
Total	<u>\$ 3,507,167</u>	<u>\$ 1,357,685</u>

Black Hills Special Services Cooperative
Notes to the Financial Statements
June 30, 2020

NOTE 7 - PENSION PLAN (CONTINUED)

\$807,664 is reported as deferred outflows of resources related to pensions resulting from Cooperative contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. 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,	
2021	\$ 1,524,776
2022	(180,075)
2023	(134,683)
2024	132,050
2025	-
Thereafter	<u>-</u>
Total	<u>\$ 1,342,068</u>

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2019 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 COLA's	1.88%

Mortality rates were based on 97% of the RP-2014 Employee 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.

Black Hills Special Services Cooperative
Notes to the Financial Statements
June 30, 2020

NOTE 7 - PENSION PLAN (CONTINUED)

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of 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, 2019 (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%	4.7%
Fixed Income	30.0%	1.7%
Real Estate	10.0%	4.3%
Cash	<u>2.0%</u>	0.9%
Total	<u>100%</u>	

Discount Rate

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

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Cooperative's Proportionate Share of the Net Pension Liability (Asset)	<u>\$ 11,061,664</u>	<u>\$ (66,644)</u>	<u>\$ (9,134,205)</u>

Pension Plan Fiduciary Net Position

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

Black Hills Special Services Cooperative
Notes to the Financial Statements
June 30, 2020

NOTE 8 - RELATED PARTY TRANSACTIONS

The Cooperative was formed through a joint venture between twelve school districts. The school districts are Belle Fourche School District 9-1, Custer School District 16-1, Douglas School District 51-1, Edgemont School District 23-1, Haakon School District 27-1, Hill City School District 51-2, Hot Springs School District 23-2, Lead-Deadwood School District 40-1, Meade School District 46-1, Oelrichs School District 23-3, Rapid City School District 51-4, and Spearfish School District 40-2. The Cooperative receives annual membership fees, tuition fees, and other service fees from its member school districts in return for providing technical assistance, consultation, or specialty services such as psychology or therapy services.

For the year ended June 30, 2020, the Cooperative earned revenue of \$5,850,888 as a result of membership fees, services fees, and tuition from member school districts.

The Cooperative contracts with some of the member school districts to provide meal services, busing, and transportation. As a result of these contracts, the Cooperative paid \$380,348 to member school districts for the year ended June 30, 2020. As of June 30, 2020, the Cooperative did not owe funds to member districts.

NOTE 9 - JOINT VENTURE

The Cooperative participates in the Black Hills Educational Benefits Cooperative (BHEBC), a cooperative service unit formed for the purpose of providing health insurance services to the member school districts.

The members of the joint venture are Black Hills Special Services Cooperative, New Underwood School District 51-3, Wall School District 51-5, Custer School District 16-1, Oelrichs School District 23-3, and Belle Fourche School District 9-1.

BHEBC's governing board is comprised of two representatives from each member district. The Board is responsible for adopting the budget and setting service fees at a level adequate to fund the adopted budget. Members are not liable for claims in excess of BHEBC's assets.

Separate financial statements may be obtained by writing to BHEBC, PO Box 218, Sturgis SD 57785. At June 30, 2020, this joint venture had audited total assets of \$6,922,030, liabilities of \$646,199, and net position of \$6,275,831.

NOTE 10 - CONCENTRATION OF BUSINESS RELATIONSHIP

The Cooperative engages in significant business transactions with the West River Foundation (the Foundation). The nature of these transactions results in a concentration of business relationship. The various transactions between the Cooperative and Foundation are as follows:

The Cooperative leases a majority of its building space from the Foundation. During the year ended June 30, 2020, the Cooperative paid \$584,798 for operating leases for vehicles and rent. In addition, the Cooperative purchased \$11,209 of equipment, supplies, and services from the Foundation. The Foundation reimburses the Cooperative for its use of the Cooperative's administrative and clerical personnel and other expenses. For the year ended June 30, 2020, the Foundation remitted \$23,238 for these services.

The Cooperative has contract agreements with the Foundation for the administration of various programs, such as the West River Business Service Center, and for purchases of goods and services. During the year ended June 30, 2020, the Foundation paid the Cooperative \$1,893,332 for these services. In addition, as of June 30, 2020, the Cooperative had outstanding accounts receivable of \$89,705 due from the Foundation, and \$1,705 in accounts payable due to the Foundation.

Black Hills Special Services Cooperative
Notes to the Financial Statements
June 30, 2020

NOTE 11 - RISK MANAGEMENT

The Cooperative 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, 2020, the Cooperative managed its risks as follows:

Employee Health Insurance

The Cooperative joined together with other educational units in the state to form a public entity risk pool (see Note 9 and Note 12). This is a public entity risk pool currently operating as a common risk management and insurance program for the member school districts. The Cooperative pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage provides three deductible plan options for employees: \$1,500 per person/\$2,800 per family, \$3,500 per person/\$7,000 per family, or \$5,000 per person/\$10,000 per family.

The Cooperative does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Liability Insurance

The Cooperative purchases liability insurance for risks related to torts; theft of or damage to property; and errors and omissions of public officials from a commercial insurance carrier. In prior years, settled claims resulting from these risks have not exceeded the Cooperative's liability coverage.

Worker's Compensation

The Cooperative purchases insurance for worker's compensation from a commercial insurance carrier. In prior years, settled claims resulting from these risks have not exceeded the Cooperative's liability coverage.

Unemployment Benefits

The Cooperative has elected to use the cost reimbursement alternative for unemployment benefits. During the year ended June 30, 2020, \$44,359 of claims were filed for unemployment benefits, \$22,497 of which was outstanding as of June 30, 2020. Based on historical trends, it is expected that future payment of unemployment benefit claims will be similar to the amount paid in the current year.

Plan Description

The Cooperative offers a health insurance plan, established under SDCL 13-10-3, through Black Hills Educational Benefits Cooperative (BHEBC), which is a cooperative service unit formed for the purpose of providing health insurance services to member school districts as previously described in Notes 9 and 11. The members participate in a cost-sharing plan by pooling their participants to receive better insurance premiums than the members would receive individually. The premiums of the covered retirees are established by BHEBC, but the Cooperative's Board determines retiree and employer contribution rates. Because of this cost-sharing structure, the health insurance plan would fall under a cost-sharing multiple-employer OPEB plan arrangement. However, the members have not committed to sharing the annual OPEB costs, actuarial accrued liabilities, plan assets, or unfunded actuarial accrued liabilities and each member is receiving a separate actuarial report. Because the OPEB costs are not shared, each member's separate actuarial valuation falls under the accounting for single-employer OPEB plans. The health insurance plan does not issue separately stated stand-alone financial statements. The Plan does not accumulate assets in a trust.

Black Hills Special Services Cooperative
Notes to the Financial Statements
June 30, 2020

NOTE 12 - POST-EMPLOYMENT HEALTHCARE PLAN

An employee of the Cooperative who is eligible and elects to participate in the group health plan is covered. A covered individual who retires from the Cooperative and is at least age 55, has ten years of continuous service with the Cooperative, and is currently participating in the group insurance plan at the time of retirement is eligible for health insurance. Spousal and dependent coverage is provided as long as the required contributions are paid. Spouses may continue coverage after the retiree's coverage terminates until the spouse is eligible for Medicare. Non-spouse dependents may continue coverage for a maximum of 36 months or until the dependent is eligible for Medicare, whichever is shorter. All coverage ceases when the retiree or spouse attains age 65 or becomes eligible for Medicare except for COBRA continuation if elected.

Employees retiring on or after September 1, 2019 will no longer receive the benefit of this plan. Those already participating will be allowed to remain in the plan.

The Cooperative received an actuarial valuation report for the measurement date of June 30, 2020.

Funding Policy

The eligible retiree must pay monthly contributions based on 130% of the full active premium rates for either single or family coverage.

Changes in Liability

For the year ended June 30, 2020, the beginning balance of the OPEB liability was \$39,362. Total OPEB liability was determined as of the measurement date, which is June 30, 2020. The changes in total OPEB liability for 2020 were as follows:

Total OPEB Liability - June 30, 2019	\$	39,362
Changes for the Year:		
Interest on Total OPEB Liability		1,329
Benefit Payments		<u>(2,723)</u>
Total OPEB Liability - June 30, 2020	\$	<u>37,968</u>

For the year ended June 30, 2020, the Cooperative recognized OPEB expense of \$3,268. OPEB expense was determined as follows:

Interest on Total OPEB Liability	\$	1,329
Recognition of Deferred (Inflows)/Outflows of Resources		
Effect of Assumption Changes or Inputs		425
Benefit Payments		<u>1,514</u>
OPEB Expense	\$	<u>3,268</u>

As of June 30, 2020, the Cooperative reported outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences Between Expected and Actual Experience	\$ 2,589	\$ -
Changes of Assumptions	<u>7,909</u>	<u>-</u>
	<u>\$ 10,498</u>	<u>\$ -</u>

Black Hills Special Services Cooperative
Notes to the Financial Statements
June 30, 2020

NOTE 12 - POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in future years' OPEB expense (revenue) as follows:

Year Ended June 30,		
2021	\$	1,939
2022		1,939
2023		1,939
2024		1,939
2025		1,733
Thereafter		1,009
	<u>\$</u>	<u>10,498</u>

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The entry age normal level percentage of pay actuarial cost method was used to determine the total OPEB liability.

The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following assumptions:

- As an unfunded plan, the discount rate reflects the index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of the measurement date. The index rate used to measure the total pension liability was 3.87% as of the measurement date.
- Mortality rates were based on the RP 2014 annuitant distinct mortality table adjusted to 2006 with MP 2016 generational projection of future mortality improvement.
- Healthcare cost trend rates were 5.0% for all years.
- The future retiree participation rate was assumed to be 25% for employees currently electing coverage and 0% for employees currently waiving coverage.
- The assumed claim costs were determined from the self-funded premiums and underlying claim experience of the OPEB plan and actuarial age adjustment factors.
- Assumed annual salary, including inflation, for active members are as follows:

<u>Service</u>	<u>General Inflation</u>	<u>Salary Increases</u>
All Years	3.00%	3.00%

- Retiree participation rate was assumed to be 25% for employees currently electing coverage and initial spouse participation rate has assumed to be 10% for both male and female employees.

Black Hills Special Services Cooperative
Notes to the Financial Statements
June 30, 2020

NOTE 12 - POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Sensitivity Analysis

The following represents the Cooperative's total OPEB liability, calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease 2.5%	Current Discount Rate 3.5%	1% Increase 4.5%
Total OPEB Liability	<u>\$ 39,082</u>	<u>\$ 37,968</u>	<u>\$ 36,903</u>

The following represents the Cooperative's total OPEB liability, calculated using the current healthcare cost trend rates as well as what the Cooperative's total OPEB liability would be if it were calculated using trend rates that are one percentage point lower or one percentage point higher than the current trend rates.

	1% Decrease 4.0%	Current Trend Rate 5.0%	1% Increase 6.0%
Total OPEB Liability	<u>\$ 36,908</u>	<u>\$ 37,968</u>	<u>\$ 39,055</u>

NOTE 13 - CONTINGENCIES

During the year ended June 30, 2020, COVID-19 created a worldwide pandemic. The pandemic caused many jurisdictions to declare states of emergency which forced the closure of businesses, schools, and government offices. The disruption is expected to be temporary, but effects may continue for some time. The extent of the impact of COVID-19 on the Cooperative's operations will depend on developments including the duration and spread of the outbreak and impact on local education agencies, which are uncertain and cannot be predicted.

NOTE 14 - SUBSEQUENT EVENTS

The Cooperative has evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

NOTE 15 - BASIS FOR REISSUANCE OF FINANCIAL STATEMENTS

Subsequent to the issuance of the financial statements for the year ended June 30, 2020, dated January 21, 2021, it was determined that revenues in the amount of \$177,672 were improperly included as Community Services expense in the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund. The June 30, 2020 financial statements were revised to reclassify these revenues to Revenue from State Sources. This revision did not affect the previously reported fund balance, nor did it affect any amounts previously reported in the government-wide financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**Black Hills Special Services Cooperative
Budgetary Comparison Schedule -
General Fund - Budgetary Basis
For the Year Ended June 30, 2020**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
REVENUES				
Revenue from Local Sources:				
Tuition and Fees	\$ 1,883,000	\$ 1,868,000	\$ 1,847,997	\$ (20,003)
Transportation Fees	773,674	773,674	41,175	(732,499)
Earnings on Investments and Deposits	20,000	20,000	12,458	(7,542)
Other Revenue from Local Sources	15,917,115	16,135,442	14,947,870	(1,187,572)
Revenue from State Sources	4,963,328	5,257,378	4,650,334	(607,044)
Revenue from Federal Sources	<u>4,589,712</u>	<u>4,590,021</u>	<u>4,839,335</u>	<u>249,314</u>
Total Revenues	<u>28,146,829</u>	<u>28,644,515</u>	<u>26,339,169</u>	<u>(2,305,346)</u>
EXPENDITURES				
Instruction:				
Regular Programs	1,414,590	1,414,590	1,440,980	(26,390)
Special Programs	2,339,932	2,339,932	2,157,603	182,329
Adult Continuing Education Programs	<u>373,745</u>	<u>373,745</u>	<u>357,391</u>	<u>16,354</u>
Total Instruction	<u>4,128,267</u>	<u>4,128,267</u>	<u>3,955,974</u>	<u>172,293</u>
Support Services:				
Pupils	4,577,713	4,577,713	4,238,458	339,255
Instruction Staff	4,295,053	4,295,362	3,733,008	562,354
General Administration	1,393,000	1,393,000	1,305,969	87,031
Other Administrative Support Services	109,630	109,630	128,117	(18,487)
Business	3,594,703	3,690,490	2,053,944	1,636,546
Central	920,180	920,180	824,105	96,075
Special Education	662,916	662,916	637,535	25,381
Other Support Services	<u>1,186,366</u>	<u>1,186,366</u>	<u>876,432</u>	<u>309,934</u>
Total Support Services	<u>16,739,561</u>	<u>16,835,657</u>	<u>13,797,568</u>	<u>3,038,089</u>
Community Services	<u>7,279,001</u>	<u>7,680,591</u>	<u>7,547,380</u>	<u>133,211</u>
Total Expenditures	<u>28,146,829</u>	<u>28,644,515</u>	<u>25,300,922</u>	<u>3,343,593</u>

See independent auditor's report and the accompanying notes
to the required supplementary information.

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
Excess of Revenues over Expenditures	-	-	1,038,247	1,038,247
OTHER FINANCING SOURCES				
Proceeds from Insurance	<u>-</u>	<u>-</u>	<u>2,020</u>	<u>2,020</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	-	-	1,040,267	1,040,267
Changes in Nonspendable Fund Balance	<u>-</u>	<u>-</u>	<u>(40,370)</u>	<u>(40,370)</u>
NET CHANGE IN FUND BALANCE	-	-	999,897	999,897
FUND BALANCE - BEGINNING	<u>3,223,495</u>	<u>3,223,495</u>	<u>3,223,495</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 3,223,495</u>	<u>\$ 3,223,495</u>	<u>\$ 4,223,392</u>	<u>\$ 999,897</u>

See independent auditor's report and the accompanying notes to the required supplementary information.

**Black Hills Special Services Cooperative
Schedule of Changes in Total OPEB
Liability and Related Ratios
For the Years Ended June 30**

<u>Year*</u>	<u>Service Cost</u>	<u>Interest on Total OPEB Liability</u>	<u>Changes in Benefit Terms</u>	<u>Effect of Assumption Changes or Inputs</u>	<u>Benefit Payments</u>	<u>Net Change in Total OPEB Liability</u>	<u>Net OPEB Obligation Beginning</u>	<u>Net OPEB Obligation Ending</u>	<u>Cooperative's Covered- employee Payroll</u>	<u>Total OPEB Liability as a Percentage of Covered- employee Payroll</u>
2020	\$ -	\$ 1,329	\$ -	\$ (2,723)	\$ -	\$ (1,394)	\$ 39,362	\$ 37,968	\$ 12,217,446	0.31%
2019	\$ 6,365	\$ 5,236	\$ (104,897)	\$ 7,469	\$ (7,503)	\$ (93,330)	\$ 132,692	\$ 39,362	\$ 11,861,598	0.33%
2018	\$ 5,442	\$ 5,836	\$ -	\$ 7,922	\$ (7,851)	\$ 11,349	\$ 121,343	\$ 132,692	\$ 11,680,190	1.14%

*Until a 10-year trend is compiled, the Cooperative will present information for those years for which information is available.

See independent auditor's report and the accompanying notes
to the required supplementary information.

**Black Hills Special Services Cooperative
Schedule of the Cooperative's Proportionate Share
of the Net Pension Liability (Asset)
South Dakota Retirement System**

Year*	Cooperative's Proportion of the Net Pension Liability (Asset)	Cooperative's Proportionate Share of the Net Pension Liability (Asset)	Cooperative's Covered- employee Payroll	Cooperative's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
2020	0.6228831%	\$ (66,644)	\$ 13,372,069	-0.50%	100.09%
2019	0.6372764%	\$ (14,863)	\$ 13,252,564	-0.11%	100.02%
2018	0.6563468%	\$ (59,564)	\$ 13,335,609	-0.45%	100.10%
2017	0.6722685%	\$ 2,270,857	\$ 12,780,404	17.77%	96.89%
2016	0.7083794%	\$ (3,004,440)	\$ 12,931,725	-23.23%	104.10%
2015	0.7114084%	\$ (5,125,407)	\$ 12,439,879	-41.20%	107.30%

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

See independent auditor's report and the accompanying notes
to the required supplementary information.

**Black Hills Special Services Cooperative
Schedule of Pension Contributions
South Dakota Retirement System**

Year*	Contractually Required Contribution	Contributions in Relation to the Contractually- required Contribution	Contribution Deficiency (Excess)	Cooperative's Covered- employee Payroll	Contributions as a Percentage of Covered- employee Payroll
2020	\$ 807,664	807,664	\$ -	\$ 13,466,856	6.00%
2019	\$ 802,029	802,029	\$ -	\$ 13,372,069	6.00%
2018	\$ 794,666	794,666	\$ -	\$ 13,252,564	6.00%
2017	\$ 800,137	800,137	\$ -	\$ 13,335,609	6.00%
2016	\$ 766,880	766,880	\$ -	\$ 12,780,404	6.00%
2015	\$ 775,944	775,944	\$ -	\$ 12,931,725	6.00%

*Until a full 10-year trend is compiled, the Cooperative will present information for those years for which information is available.

See independent auditor's report and the accompanying notes
to the required supplementary information.

Black Hills Special Services Cooperative
Notes to the Required Supplementary Information
June 30, 2020

NOTE 1 - BASIS OF PRESENTATION

The Budgetary Comparison Schedule has been prepared on the modified accrual basis of accounting. The Budgetary Comparison Schedule - General Fund - Budgetary Basis presents capital outlay expenditures within each function, while the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund presents capital outlay expenditures as a separate function.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

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

1. Prior to the first regular Board meeting in May of each year, the Cooperative 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 Cooperative Board at the first regular meeting held in 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 member input prior to the approval of the budget.
5. Before October 1 of each year, the Cooperative Board must approve the budget for the ensuing fiscal year.
6. After adoption by the Cooperative Board, the operating budget is legally binding, and actual expenditures of each fund cannot exceed the amounts budgeted. An exception exists when, if it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets when moneys are available to increase legal spending authority.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5% of the total Cooperative budget and may be transferred by resolution of the Cooperative to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. Unexpended appropriations lapse at year-end unless encumbered by resolution of the Board. No encumbrances were outstanding at June 30, 2020.
9. Formal budgetary integration is employed as a management control device during the year for the General Fund.
10. Budgets for the General Fund are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP).

NOTE 3 - PENSION PLAN

Changes of Benefit Terms

No significant changes

See independent auditor's report and the accompanying notes
to the required supplementary information.

Black Hills Special Services Cooperative
Notes to the Required Supplementary Information
June 30, 2020

Changes in Assumptions

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal 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 an FVFR equal to or exceeding 100%. That condition existed as of June 30, 2018 and exists again this year as of June 30, 2019. Future COLAs are assumed to equal the current restricted maximum COLA which was 2.03% as of June 30, 2018 and is 1.88% as of June 30, 2019.

The changes in actuarial assumptions decreased the Actuarial Accrued Liability by 1.5% of the Actuarial Accrued Liability based on the 2.03% COLA, reflecting the current and assumed future restricted maximum COLA of 1.88%.

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.

See independent auditor's report and the accompanying notes
to the required supplementary information.

SUPPLEMENTARY INFORMATION

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**Black Hills Special Services Cooperative
Cooperative Officials
June 30, 2020**

BOARD MEMBERS

Anita Peterson, President
Susan Humiston, Vice President
Bryan Bauer
Heather Grace
Jean Helmer
Vince Logue
Matt Stephens
Kim Henningsen
Dennis Krull
Orson Ward
Charlie Wheeler

DIRECTOR

Joe Hauge

BUSINESS MANAGER

Heidi Anderson

See independent auditor's report.

**Black Hills Special Services Cooperative
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2020**

Federal CFDA Number	Federal Program or Cluster Title	Pass-through Entity	Pass-through Entity Identifying Number	Expenditures For the Year Ended June 30, 2020	Passed Through to Subrecipients June 30, 2020
<u>U.S. Department of Defense</u>					
12 . 404	National Guard ChalleNGe Program	SD Department of Military	W912MM-16-2-402	\$ 1,131,262	\$ -
	Total U.S. Department of Defense			<u>1,131,262</u>	<u>-</u>
<u>U.S. Department of Labor</u>					
17 . 264	National Farmworker Jobs Program	N/A	N/A	579,810	-
	Total U.S. Department of Labor			<u>579,810</u>	<u>-</u>
<u>National Endowment for the Humanities</u>					
45 . 313	Laura Bush 21st Century Librarian Program	Institute of Museum and Library Services	RE-70-18-0050-18	34,263	-
	Total National Endowment for the Humanities			<u>34,263</u>	<u>-</u>
<u>U.S. Department of Education</u>					
84 . 002	Adult Education - Basic Grants to States	South Dakota Department of Labor	20-AB-002	267,861	-
84 . 011	Migrant Education State Grant Program	South Dakota Department of Education	2020G-T1CM40201	142,444	-
84 . 027	Special Education-Grants to States	South Dakota Department of Human Services	4195-657-001-20/4195-657-006-21	220,164	-
84 . 048	Career and Technical Education - Basic Grants to States	South Dakota Department of Education	2020G-CP40201	48,199	45,903
84 . 126	Rehabilitation Services - Vocational Rehabilitation Grants to States	South Dakota Department of Human Services	9195-605-108-20	23,337	-
84 . 126	Rehabilitation Services - Vocational Rehabilitation Grants to States	South Dakota Department of Human Services	4195-657-001-20/4195-657-006-21	220,164	-
84 . 126	Rehabilitation Services - Vocational Rehabilitation Grants to States	South Dakota Department of Human Services	9195-657-109 20/9195-657-109-21	47,546	-
84 . 287	Twenty-First Century Community Learning Centers	South Dakota Department of Education	2020G-21CC40201C	127,104	-
84 . 287	Twenty-First Century Community Learning Centers	South Dakota Department of Education	2020G-21CC40201F	126,763	-
84 . 287	Twenty-First Century Community Learning Centers	South Dakota Department of Education	2020G-21CC40201D	119,849	-
84 . 287	Twenty-First Century Community Learning Centers	South Dakota Department of Education	2020G-21CC40201A	108,647	-
84 . 287	Twenty-First Century Community Learning Centers	South Dakota Department of Education	2020G-21CC40201E	143,012	-
84 . 287	Twenty-First Century Community Learning Centers	South Dakota Department of Education	2020G-21CC40201B	121,644	-
84 . 365	English Language Acquisition State Grants	South Dakota Department of Education	2020G-LEP40201	212,558	-
84 . 367	Supporting Effective Instruction State Grants	South Dakota Department of Education	2020G-218	19,334	-
84 . 418	Promoting Readiness of Minors in Supplemental Security Income	South Dakota Department of Human Services	9195-605-002-19	3,730	-
	Total U.S. Department of Education			<u>1,952,356</u>	<u>45,903</u>

See independent auditor's report.

Federal CFDA Number	Federal Program or Cluster Title	Pass-through Entity	Pass-through Entity Identifying Number	Expenditures For the Year Ended June 30, 2020	Passed Through to Subrecipients June 30, 2020
<u>U.S. Department of Health and Human Services</u>					
93 . 243	Substance Abuse and Mental Health Services - Projects of Regional and National Significance	South Dakota Department of Education	2019G-315/2020G-256	89,452	-
93 . 464	ACL Assistive Technology	South Dakota Department of Human Services	9195-605-001-19/9195-657-001-20	427,932	-
93 . 630	Developmental Disabilities Basic Support and Advocacy Grants	South Dakota Department of Education	9191-605-095-19	25,000	-
93 . 630	Developmental Disabilities Basic Support and Advocacy Grants	South Dakota Department of Education	9191-605-088-19	33,020	-
93 . 630	Developmental Disabilities Basic Support and Advocacy Grants	South Dakota Department of Human Services	9191-657-018-20	4,003	-
Total Department of Health and Human Services				<u>579,407</u>	<u>-</u>
<u>Social Security Administration</u>					
96 . 008	Social Security - Work Incentives Planning and Assistance Program	N/A	5 WIP15050445-05-00	110,000	-
Total Social Security Administration				<u>110,000</u>	<u>-</u>
Total Federal Financial Assistance				<u>\$ 4,387,098</u>	<u>\$ 45,903</u>

NOTE 1: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Cooperative and is presented on the modified accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2: Black Hills Special Services Cooperative did not elect to use the 10% de minimis indirect cost rate.

See independent auditor's report.