



Financial Statements
June 30, 2022

Britton-Hecla School District 45-4

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Financial Statements

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Independent Auditor's Report

To the School Board
Britton-Hecla School District 45-4
Britton, South Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Britton-Hecla School District 45-4 (the School District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Correction of Error

As discussed in Note 11 to the financial statements, certain errors resulting in an understatement of amounts previously reported for capital assets and accumulated depreciation and overstatement of amounts previously reported for contracts payable and expense as of July 1, 2021, were discovered by management of the School District during the current year. Accordingly, a restatement has been made to the Other Enterprise Fund net position and governmental activities and business-type activities net position as of July 1, 2021, to correct the error. Our opinions are not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by the missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2023, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

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

Aberdeen, South Dakota
March 24, 2023

Britton-Hecla School District 45-4

Statement of Net Position

June 30, 2022

| | Primary Government | | |
|-------------------------------------------|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Assets | | | |
| Cash and cash equivalents | \$ 2,006,916 | \$ 163,341 | \$ 2,170,257 |
| Taxes receivable | 1,764,419 | - | 1,764,419 |
| Due from other governments | 407,667 | 56,754 | 464,421 |
| Inventories | - | 7,693 | 7,693 |
| Net pension asset | 812,170 | 33,841 | 846,011 |
| Capital assets: | | | |
| Land | 152,762 | - | 152,762 |
| Other capital assets, net of depreciation | 12,252,938 | 125,449 | 12,378,387 |
| Total assets | 17,396,872 | 387,078 | 17,783,950 |
| Deferred Outflows of Resources | | | |
| Pension related deferred outflows | 1,130,746 | 47,114 | 1,177,860 |
| | <u>\$ 18,527,618</u> | <u>\$ 434,192</u> | <u>\$ 18,961,810</u> |
| Liabilities | | | |
| Accounts payable | \$ 36,316 | \$ 15,921 | \$ 52,237 |
| Other current liabilities | 383,669 | 5,091 | 388,760 |
| Unearned revenue | - | 22,550 | 22,550 |
| Noncurrent liabilities: | | | |
| Due within one year | 404,930 | - | 404,930 |
| Due in more than one year | 5,153,283 | - | 5,153,283 |
| Total liabilities | 5,978,198 | 43,562 | 6,021,760 |
| Deferred Inflows of Resources | | | |
| Pension related deferred inflows | 1,569,055 | 65,377 | 1,634,432 |
| Taxes levied for future period | 2,053,877 | - | 2,053,877 |
| Other deferred inflows of resources | 73,626 | - | 73,626 |
| Total deferred inflows of resources | 3,696,558 | 65,377 | 3,761,935 |
| Net Position | | | |
| Net investment in capital assets | 6,792,601 | 125,449 | 6,918,050 |
| Restricted for: | | | |
| Capital Outlay | 758,616 | - | 758,616 |
| Special Education | 130,387 | - | 130,387 |
| SDRS Pension Benefits | 373,861 | 15,578 | 389,439 |
| Unrestricted | 797,397 | 184,226 | 981,623 |
| Total net position | 8,852,862 | 325,253 | 9,178,115 |
| | <u>\$ 18,527,618</u> | <u>\$ 434,192</u> | <u>\$ 18,961,810</u> |

Britton-Hecla School District 45-4

Statement of Activities

Year Ended June 30, 2022

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|---------------------------------------|--------------|----------------------|------------------------------------|----------------------------------|---------------------------------------------------|--------------------------|----------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | |
| | | | | | Governmental Activities | Business-Type Activities | Total |
| Primary Government | | | | | | | |
| Governmental activities: | | | | | | | |
| Instruction | \$ 2,743,010 | \$ - | \$ 301,750 | \$ 30,668 | \$ (2,410,592) | \$ - | \$ (2,410,592) |
| Support services | 1,859,248 | - | 203,576 | 21,251 | (1,634,421) | - | (1,634,421) |
| Co-curricular activities | 474,921 | 34,653 | 5,646 | 20,000 | (414,622) | - | (414,622) |
| *Interest on long-term debt | 248,091 | - | - | - | (248,091) | - | (248,091) |
| Total governmental activities | 5,325,270 | 34,653 | 510,972 | 71,919 | (4,707,726) | - | (4,707,726) |
| Business-type activities: | | | | | | | |
| Food service | 309,714 | 12,382 | 400,204 | - | - | 102,872 | 102,872 |
| Driver's education | 9,258 | 9,500 | - | - | - | 242 | 242 |
| After-school programs | 11,175 | 11,386 | 9,595 | - | - | 9,806 | 9,806 |
| Total business-type activities | 330,147 | 33,268 | 409,799 | - | - | 112,920 | 112,920 |
| Total primary government | \$ 5,655,417 | \$ 67,921 | \$ 920,771 | \$ 71,919 | (4,707,726) | 112,920 | (4,594,806) |
| General Revenues | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes | | | | | 4,098,742 | - | 4,098,742 |
| Other taxes | | | | | 243,934 | - | 243,934 |
| Revenue from state sources: | | | | | | | |
| State aid | | | | | 970,714 | - | 970,714 |
| Revenue from federal sources | | | | | 14,234 | - | 14,234 |
| Unrestricted investment earnings | | | | | 4,042 | 577 | 4,619 |
| Other general revenues | | | | | 91,406 | 1,358 | 92,764 |
| Loss on disposal of capital assets | | | | | (4,863) | - | (4,863) |
| Total general revenues | | | | | 5,418,209 | 1,935 | 5,420,144 |
| Change in Net Position | | | | | 710,483 | 114,855 | 825,338 |
| Net Position - Beginning | | | | | 7,150,242 | 207,839 | 7,358,081 |
| Restatement - See Note 11 | | | | | 992,137 | 2,559 | 994,696 |
| Net Position - Beginning, As Restated | | | | | 8,142,379 | 210,398 | 8,352,777 |
| Net Position - Ending | | | | | \$ 8,852,862 | \$ 325,253 | \$ 9,178,115 |

*The School District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

See Notes to Financial Statements

Britton-Hecla School District 45-4

Balance Sheet – Governmental Funds

June 30, 2022

| | General Fund | Capital Outlay Fund | Special Education Fund | Total Governmental Funds |
|----------------------------------------------------------------------|---------------------|---------------------------|------------------------------|--------------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 993,853 | \$ 787,115 | \$ 225,948 | \$ 2,006,916 |
| Taxes receivable - current | 833,134 | 643,056 | 278,578 | 1,754,768 |
| Taxes receivable - delinquent | 6,859 | 1,908 | 884 | 9,651 |
| Due from other governments | 324,505 | 83,162 | - | 407,667 |
| | <u>\$ 2,158,351</u> | <u>\$ 1,515,241</u> | <u>\$ 505,410</u> | <u>\$ 4,179,002</u> |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 24,888 | \$ 3,049 | \$ 8,379 | \$ 36,316 |
| Contracts payable | 274,908 | - | 34,454 | 309,362 |
| Payroll deductions and withholdings and employer matching payable | 68,539 | - | 5,768 | 74,307 |
| Total liabilities | <u>368,335</u> | <u>3,049</u> | <u>48,601</u> | <u>419,985</u> |
| Deferred Inflows of Resources | | | | |
| Taxes levied for future period | 973,879 | 753,576 | 326,422 | 2,053,877 |
| Unavailable revenue - delinquent property taxes | 6,859 | 1,908 | 884 | 9,651 |
| Total deferred inflows of resources | <u>980,738</u> | <u>755,484</u> | <u>327,306</u> | <u>2,063,528</u> |
| Fund Balances | | | | |
| Restricted: | | | | |
| Capital Outlay | - | 756,708 | - | 756,708 |
| Special Education | - | - | 129,503 | 129,503 |
| Assigned (subsequent year's budget) | 224,963 | - | - | 224,963 |
| Unassigned | 584,315 | - | - | 584,315 |
| Total fund balances | <u>809,278</u> | <u>756,708</u> | <u>129,503</u> | <u>1,695,489</u> |
| | <u>\$ 2,158,351</u> | <u>\$ 1,515,241</u> | <u>\$ 505,410</u> | <u>\$ 4,179,002</u> |

Britton-Hecla School District 45-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
Year Ended June 30, 2022

| | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| Total Fund Balances - Governmental Funds | \$ 1,695,489 |
| Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 12,405,700 |
| Long-term liabilities, including bonds payable, notes payable and accrued leave payable, are not due and payable in the current period and, therefore, are not reported in the funds. The cost of the liabilities is \$5,377,047 plus deferred inflows of \$73,626. | (5,450,673) |
| Unamortized balance of premiums and discounts are not due and payable in the current period and, therefore, are not reported in the funds. | (181,166) |
| Assets such as taxes receivable (delinquent and utility) are not available to pay for current period expenditures and, therefore, are deferred in the funds. | 9,651 |
| Net pension asset (liability), pension related deferred inflows of resources, and pension related deferred outflows of resources do not represent available financial resources and, therefore, are not available financial resources and, therefore, are not reported in the funds. | <u>373,861</u> |
| Net Position - Governmental Funds | <u><u>\$ 8,852,862</u></u> |

Britton-Hecla School District 45-4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2022

| | General Fund | Capital Outlay Fund | Special Education Fund | Total Governmental Funds |
|--------------------------------------------------------------------------------------------|------------------|---------------------------|------------------------------|--------------------------------|
| Revenues | | | | |
| Revenue from local sources | | | | |
| Taxes: | | | | |
| Ad valorem taxes | \$ 1,965,036 | \$ 1,507,879 | \$ 615,538 | \$ 4,088,453 |
| Prior year's ad valorem taxes | 9,149 | 3,090 | 909 | 13,148 |
| Gross receipts taxes | 243,934 | - | - | 243,934 |
| Penalties and interest on taxes | 6,894 | 2,492 | 903 | 10,289 |
| Earnings on investments and deposits | 1,345 | 2,074 | 623 | 4,042 |
| Co-curricular activities: | | | | |
| Admissions | 31,661 | - | - | 31,661 |
| Rentals | 2,535 | - | - | 2,535 |
| Other pupil activity | 457 | - | - | 457 |
| Other revenue from local sources: | | | | |
| Contributions and donations | 1,908 | 20,000 | 980 | 22,888 |
| Refund of prior years' expenditures | - | 402 | - | 402 |
| Charges for services | 2,665 | - | 1,284 | 3,949 |
| Other | 65,626 | 16 | 355 | 65,997 |
| Revenue from intermediate sources: | | | | |
| County sources: | | | | |
| County apportionment | 15,016 | - | - | 15,016 |
| Revenue from state sources: | | | | |
| Grants-in-aid: | | | | |
| Unrestricted grants-in-aid | 970,714 | - | - | 970,714 |
| Revenue from federal sources: | | | | |
| Grants-in-aid: | | | | |
| Unrestricted grants-in-aid received from federal government through an intermediate source | 14,234 | - | - | 14,234 |
| Restricted grants-in-aid received directly from federal government | 13,200 | - | - | 13,200 |
| Restricted grants-in-aid received from federal government through the state | 163,325 | 379,529 | - | 542,854 |
| Total revenues | <u>3,507,699</u> | <u>1,915,482</u> | <u>620,592</u> | <u>6,043,773</u> |

Britton-Hecla School District 45-4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2022

| | General Fund | Capital Outlay Fund | Special Education Fund | Total Governmental Funds |
|--------------------------------------------|-----------------|---------------------------|------------------------------|--------------------------------|
| Expenditures | | | | |
| Instruction | | | | |
| Regular programs: | | | | |
| Elementary | 959,445 | 71,192 | - | 1,030,637 |
| Middle/junior high | 394,155 | 13,293 | - | 407,448 |
| High school | 548,821 | 163,412 | - | 712,233 |
| Special programs: | | | | |
| Programs for special education | - | - | 457,165 | 457,165 |
| Educationally deprived | 99,841 | - | - | 99,841 |
| Support services | | | | |
| Pupils: | | | | |
| Guidance | 93,292 | - | - | 93,292 |
| Health | 576 | - | - | 576 |
| Psychological | - | - | 15,518 | 15,518 |
| Speech pathology | - | - | 32,535 | 32,535 |
| Student therapy services | - | - | 25,308 | 25,308 |
| Support services - instructional staff: | | | | |
| Improvement of instruction | 22,176 | - | - | 22,176 |
| Educational media | 92,842 | 19,037 | - | 111,879 |
| Support services - general administration: | | | | |
| Board of Education | 46,389 | - | - | 46,389 |
| Executive administration | 151,521 | - | - | 151,521 |
| Support services - school administration: | | | | |
| Office of the Principal | 179,872 | - | - | 179,872 |
| Other school administrative | 234 | - | - | 234 |
| Support services - business: | | | | |
| Fiscal services | 133,445 | 3,898 | - | 137,343 |
| Facilities acquisition and construction | - | 380,497 | - | 380,497 |
| Operation and maintenance of plant | 463,862 | 202,808 | - | 666,670 |
| Pupil transportation | 236,843 | 230,468 | - | 467,311 |
| Other | 3,644 | - | - | 3,644 |
| Support services - central: | | | | |
| Staff | 952 | - | - | 952 |

Britton-Hecla School District 45-4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2022

| | General Fund | Capital Outlay Fund | Special Education Fund | Total Governmental Funds |
|---------------------------------------|-----------------|---------------------------|------------------------------|--------------------------------|
| Support services - special education: | | | | |
| Administrative costs | - | - | 25,714 | 25,714 |
| Transportation costs | - | - | 21,100 | 21,100 |
| Other special education costs | - | - | 12,520 | 12,520 |
| Debt services | - | 5,995,752 | - | 5,995,752 |
| Co-curricular activities: | | | | |
| Male activities | 50,794 | 5,704 | - | 56,498 |
| Female activities | 50,327 | 10,166 | - | 60,493 |
| Transportation | 7,985 | - | - | 7,985 |
| Combined activities | 160,358 | 48,730 | - | 209,088 |
| Total expenditures | 3,697,374 | 7,144,957 | 589,860 | 11,432,191 |
| Other Financing Sources (Uses) | | | | |
| Sale of surplus property | - | 3,387 | - | 3,387 |
| Proceeds from long-term debt | - | 5,285,000 | - | 5,285,000 |
| Premium on bonds issued | - | 181,166 | - | 181,166 |
| Compensation for property loss | 5,698 | 4,293 | - | 9,991 |
| Total other financing sources (uses) | 5,698 | 5,473,846 | - | 5,479,544 |
| Net Change in Fund Balances | (183,977) | 244,371 | 30,732 | 91,126 |
| Fund Balance - Beginning | 993,255 | 512,337 | 98,771 | 1,604,363 |
| Fund Balance - Ending | \$ 809,278 | \$ 756,708 | \$ 129,503 | \$ 1,695,489 |

Britton-Hecla School District 45-4

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

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 91,126 |
| Amounts Reported for Governmental Activities in the Statement of Activities are Different Because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$837,706) exceeded depreciation (\$660,444) in the current period. | 177,262 |
| In the statement of activities, loss on disposed capital assets is reported; whereas, in the governmental funds, the proceeds from the disposal of capital assets are reflected, regardless of whether a gain or loss is realized. | (8,250) |
| In both the government-wide and fund financial statements, revenues from property tax levies or utility taxes are applied to finance the budget of a particular period. Accounting for revenues from both property and utility tax accruals in the funds' statements differs from the accounting in the government-wide statements in that the fund financial statements require the amounts to be "available." This amount reflects the application of both the application period and "availability criteria." | (13,148) |
| Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn compensated absences. | (250) |
| Deferred charges from refunding bonds are not recorded on the fund statements. The annual amortization of these deferred charges are reported as deferred charges and reported as interest expense in the statement of activities. | 5,663 |
| Governmental funds report the effect of premiums and discounts when the debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities. This is the amount by which current-year premiums issued exceeded the amount of amortization in the current period. | (181,166) |
| The issuance of long-term debt is an other financing source in the fund statements, but is an increase in long-term liabilities on the government-wide statements. | (5,285,000) |
| Repayment of bond and other long-term debt principal and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | 5,741,998 |
| Expenses or reductions of expenses related to pensions reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the funds. | 182,248 |
| Change in Net Position of Governmental Activities | \$ 710,483 |

Britton-Hecla School District 45-4
Statement of Net Position – Proprietary Funds
June 30, 2022

| | Other Enterprise Fund | Food Service Fund | Total |
|---------------------------------------------------------------------|-----------------------------|--------------------------|--------------------------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 2,934 | \$ 160,407 | \$ 163,341 |
| Due from state government | - | 56,754 | 56,754 |
| Inventory of supplies | - | 771 | 771 |
| Inventory of stores purchased for resale | - | 3,694 | 3,694 |
| Inventory of donated food | - | 3,228 | 3,228 |
| Total current assets | <u>2,934</u> | <u>224,854</u> | <u>227,788</u> |
| Noncurrent Assets | | | |
| Net pension asset | 4,738 | 29,103 | 33,841 |
| Capital assets: | | | |
| Machinery and equipment - local funds | - | 195,280 | 195,280 |
| Accumulated depreciation - machinery and equipment - local funds | <u>-</u> | <u>(69,831)</u> | <u>(69,831)</u> |
| Total noncurrent assets | <u>4,738</u> | <u>154,552</u> | <u>159,290</u> |
| Deferred Outflows of Resources | | | |
| Pension related deferred outflows | <u>6,596</u> | <u>40,518</u> | <u>47,114</u> |
| | <u><u>\$ 14,268</u></u> | <u><u>\$ 419,924</u></u> | <u><u>\$ 434,192</u></u> |
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts payable | \$ 505 | \$ 15,416 | \$ 15,921 |
| Contracts payable | - | 3,669 | 3,669 |
| Benefits payable | - | 1,422 | 1,422 |
| Unearned revenue | <u>-</u> | <u>22,550</u> | <u>22,550</u> |
| Total current liabilities | <u>505</u> | <u>43,057</u> | <u>43,562</u> |
| Deferred Inflows of Resources | | | |
| Pension related deferred inflows | <u>9,153</u> | <u>56,224</u> | <u>65,377</u> |
| Net Position | | | |
| Net investment in capital assets | - | 125,449 | 125,449 |
| Restricted for SDRS pension benefits | 2,181 | 13,397 | 15,578 |
| Unrestricted net position | <u>2,429</u> | <u>181,797</u> | <u>184,226</u> |
| Total net position | <u>4,610</u> | <u>320,643</u> | <u>325,253</u> |
| | <u><u>\$ 14,268</u></u> | <u><u>\$ 419,924</u></u> | <u><u>\$ 434,192</u></u> |

Britton-Hecla School District 45-4

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds
Year Ended June 30, 2022

| | Other Enterprise Fund | Food Service Fund | Total |
|-------------------------------------------------|-----------------------------|----------------------|------------|
| Operating Revenues | | | |
| Tuition and Fees | | | |
| Student tuition | \$ 20,886 | \$ - | \$ 20,886 |
| Food Sales | | | |
| To pupils | - | 5,349 | 5,349 |
| To adults | - | 7,033 | 7,033 |
| Total operating revenues | 20,886 | 12,382 | 33,268 |
| Operating Expenses | | | |
| Salaries | 16,778 | 84,077 | 100,855 |
| Employee benefits | 1,599 | 15,106 | 16,705 |
| Purchased services | - | 71,735 | 71,735 |
| Supplies | 2,056 | 10,152 | 12,208 |
| Cost of sales - purchased food | - | 95,779 | 95,779 |
| Cost of sales - donated food | - | 20,369 | 20,369 |
| Other | - | 653 | 653 |
| Depreciation - local funds | - | 11,843 | 11,843 |
| Total operating expenses | 20,433 | 309,714 | 330,147 |
| Operating Income (Loss) | 453 | (297,332) | (296,879) |
| Nonoperating Revenues | | | |
| Investment earnings | 22 | 555 | 577 |
| Other local revenue | - | 1,358 | 1,358 |
| State sources: | | | |
| Cash reimbursements | - | 851 | 851 |
| Federal sources: | | | |
| Cash reimbursements | 9,595 | 377,459 | 387,054 |
| Donated food | - | 21,894 | 21,894 |
| Total nonoperating revenues | 9,617 | 402,117 | 411,734 |
| Change in Net Position | 10,070 | 104,785 | 114,855 |
| Net Position (Deficit) - Beginning | (8,019) | 215,858 | 207,839 |
| Restatement - See Note 11 | 2,559 | - | 2,559 |
| Net Position (Deficit) - Beginning, As Restated | (5,460) | 215,858 | 210,398 |
| Net Position - Ending | \$ 4,610 | \$ 320,643 | \$ 325,253 |

Britton-Hecla School District 45-4
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2022

| | Other Enterprise Fund | Food Service Fund | Total |
|--------------------------------------------------------------|-----------------------------|----------------------|---------------------|
| Cash Flows from (used for) Operating Activities | | | |
| Receipts from customers | \$ 20,886 | \$ 10,622 | \$ 31,508 |
| Payments to suppliers | (7,875) | (164,464) | (172,339) |
| Payments to employees | (19,694) | (103,809) | (123,503) |
| Net Cash used for Operating Activities | <u>(6,683)</u> | <u>(257,651)</u> | <u>(264,334)</u> |
| Cash Flows from Noncapital Financing Activities | | | |
| Local operating subsidies | - | 1,358 | 1,358 |
| Federal grants | 9,595 | - | 9,595 |
| Federal operating subsidies | - | 332,447 | 332,447 |
| Net Cash from Noncapital Financing Activities | <u>9,595</u> | <u>333,805</u> | <u>343,400</u> |
| Cash Flows used for Capital and Related Financing Activities | | | |
| Purchase of capital assets | - | (13,241) | (13,241) |
| Net Cash used for Capital and Related Financing Activities | <u>-</u> | <u>(13,241)</u> | <u>(13,241)</u> |
| Cash Flows from Investing Activities | | | |
| Interest earnings | 22 | 555 | 577 |
| Net Cash from Investing Activities | <u>22</u> | <u>555</u> | <u>577</u> |
| Change in Cash and Cash Equivalents | 2,934 | 63,468 | 66,402 |
| Cash and Cash Equivalents, Beginning of Year | - | 96,939 | 96,939 |
| Cash and Cash Equivalents, End of Year | <u>\$ 2,934</u> | <u>\$ 160,407</u> | <u>\$ 163,341</u> |
| Reconciliation of Operating Income (Loss) to | | | |
| Net Cash from (used for) Operating Activities: | | | |
| Operating income (loss) | \$ 453 | \$ (297,332) | \$ (296,879) |
| Adjustments to reconcile operating income (loss) | | | |
| to net cash used for operating activities: | | | |
| Depreciation expense | - | 11,843 | 11,843 |
| Value of donated commodities used | - | 20,369 | 20,369 |
| Change in assets and liabilities: | | | |
| Receivables | - | 52 | 52 |
| Due from other enterprise fund | - | 5,981 | 5,981 |
| Inventories | - | (294) | (294) |
| Pension asset and deferred outflows | (4,558) | (46,713) | (51,271) |
| Pension liability and deferred inflows | 4,048 | 38,966 | 43,014 |
| Payables | (645) | 11,289 | 10,644 |
| Due to food service fund | (5,981) | - | (5,981) |
| Unearned revenue | - | (1,812) | (1,812) |
| Net Cash used for Operating Activities | <u>\$ (6,683)</u> | <u>\$ (257,651)</u> | <u>\$ (264,334)</u> |
| Noncash Investing, Capital and Financing Activities | | | |
| Value of commodities received | \$ - | \$ 21,894 | \$ 21,894 |

See Notes to Financial Statements

Britton-Hecla School District 45-4
Statement of Fiduciary Net Position
June 30, 2022

| | Private Purpose Trust Fund | Custodial Fund |
|--------------------------------------------------------|----------------------------------|-------------------|
| Assets | | |
| Cash and cash equivalents | \$ - | \$ 28,311 |
| | <u>\$ -</u> | <u>\$ 28,311</u> |
| Net Position | | |
| Net position held for organizations, clubs and classes | \$ - | \$ 28,311 |
| Total net position | - | 28,311 |
| | <u>\$ -</u> | <u>\$ 28,311</u> |

Britton-Hecla School District 45-4
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2022

| | Private Purpose Trust Fund | Custodial Fund |
|------------------------------------------|----------------------------------|-------------------|
| Additions | | |
| Contributions, donations and fundraisers | \$ - | \$ 84,079 |
| Total additions | - | 84,079 |
| Deductions | | |
| Organization, club and class expenses | - | 65,189 |
| Scholarships | 2,000 | - |
| Total deductions | 2,000 | 65,189 |
| Change in Net Position | (2,000) | 18,890 |
| Net Position - Beginning | 2,000 | 9,421 |
| Net Position - Ending | \$ - | \$ 28,311 |

Note 1 - Summary of Significant Accounting Policies

The Britton-Hecla School District 45-4's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for school districts through its pronouncements. The more significant accounting policies established in GAAP and used by the School District are discussed below.

Financial Reporting Entity

The reporting entity of the Britton-Hecla School District 45-4 (the School District) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

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

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

Basis of Presentation

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

Government-Wide Financial Statements

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

The statement of net position reports all financial and capital resources in a net position form (assets and deferred outflows 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 (distinguishing between major categories of restrictions), and unrestricted.

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

Fund Financial Statements

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

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

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

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

Governmental Funds

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

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

Capital Outlay Fund – A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of, or additions to real property, plant or equipment, textbooks, and instructional software. This fund is financed by property taxes. This is a major fund.

Special Education Fund – A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the School District. This fund is financed by grants and property taxes. This is a major fund.

Proprietary Funds

Enterprise Fund Types – Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

Other Enterprise Fund – An enterprise fund maintained by the School District to record financial transactions related to the driver's ed and after school programs. This fund is financed by user charges. This is a major fund.

Fiduciary Funds

Fiduciary funds are never considered to be major funds.

Custodial Fund Types – Custodial funds are used to account for resources held by the School District in a purely custodial capacity. Since custodial funds are custodial in nature, they do not involve the measurement of results of operations. The School District maintains custodial funds to account for funds provided by outside organizations for the benefit of students and for student funds generated within the School District by the students.

Private-Purpose Trust Fund Types – Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations or other governments. The School District maintains the following private-purpose trust fund, which is used for the purpose of providing scholarships to students:

- Oak Leaf Fund

Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

Basis of Accounting

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

Fund Financial Statements – All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues generally are recognized when they become measurable and available. “Available” means resources are collected within the current period or soon enough after the end of the fiscal year that they can be used to pay liabilities of the current period. The accrual period for the School District is sixty days.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

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

Interfund Eliminations and Reclassifications**Government-Wide Financial Statements**

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns.

Fund Financial Statements

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

Inventory

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

In the governmental fund financial statements, inventories in the General Fund and special revenue funds exist from time to time and consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a nonspendable fund balance which indicates that they do not constitute “available spendable resources” even though they are a component of net current assets. The School District did not have any material amounts of inventory in the General Fund or special revenue funds as of June 30, 2022.

Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements – All capital assets are valued at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their acquisition value on the date donated.

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

The total June 30, 2022, balance of capital assets for governmental activities includes approximately 10% for which the costs were determined by estimates of the original costs. The total June 30, 2022, balance of capital assets for business-type activities includes approximately 3% for which the costs were determined by estimates of the original costs. The estimated original costs for capital assets for governmental activities were based upon the appraisals, and the estimations of capital assets for business-type activities were established by reviewing applicable historical costs and basing the estimations thereon.

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

| | Capitalization Threshold | Depreciation Method | Estimated Useful Life |
|-------------------------|-----------------------------|------------------------|--------------------------|
| Land* | All | N/A | N/A |
| Improvements | \$ 10,000 | Straight-line | 25-50 years |
| Buildings | 20,000 | Straight-line | 20 years |
| Machinery and equipment | 5,000 | Straight-line | 5-20 years |
| Food service equipment | 1,000 | Straight-line | 12-15 years |

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

Fund Financial Statements – In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

Long-Term Debt and Other Long-Term Liabilities

The accounting treatment of long-term debt and other liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt and other liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt primarily consist of long-term bonds, notes payable and direct financing. The other long-term liabilities consists of compensated absences.

In the fund financial statements, debt proceeds are reported as other financing sources, while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt and other liabilities is on the accrual basis, the same in the fund statements as in the government-wide statements.

Program Revenues

In the government-wide statement of activities, reported program revenues derive directly from the program itself or from parties other than the School District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for Services – These arise from charges to customers, applicants or others who purchase, use or directly benefit from the goods, services or privileges provided, or are, otherwise, directly affected by the services.

2. Program-Specific Operating Grants and Contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-Specific Capital Grants and Contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

Property Taxes

Property taxes are levied on or before each October 1, attach as an enforceable lien on property as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the School District's taxes and remits them to the School District.

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current-year property taxes receivable, which is not intended to be used to finance the current year's appropriations and, therefore, are not susceptible to accrual, has been reported as deferred inflows of resources in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period."

Proprietary Funds Revenue and Expense Classifications

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

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

Cash and Cash Equivalents

The School District pools its cash resources for deposit purposes. Accordingly, the enterprise fund has access to its cash resources on demand. Therefore, all reported enterprise fund deposit balances are considered to be cash equivalents for the purpose of the statement of cash flows. For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less.

Equity Classifications

Government-Wide Statements – Equity is classified as net position and is displayed in three components:

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

Fund Financial Statements

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

Application of Net Position

It is the School District’s policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Balance Classification Policies and Procedures

The School District classifies governmental fund balances as follows:

- Nonspendable – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Fund balance may be assigned by the School Board or Business Manager.
- Unassigned – Includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

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

The School District does not have a formal minimum fund balance policy.

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

| <u>Major Special Revenue Fund</u> | <u>Revenue Source</u> |
|-----------------------------------|---------------------------|
| Capital Outlay | Property taxes and grants |
| Special Education | Property taxes and grants |

Pension

For purposes of measuring the net pension liability (asset), deferred outflows/inflows of resources, and pension expense and revenue, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deductions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows and Inflows of Resources

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

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

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

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

Deposits

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

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

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

Concentration of Credit Risk: The School District places no limit on the amount that the School District may deposit in any one financial institution.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. The School District's deposit policy requires deposits in excess of the depository insurance maximums to be 100% collateralized as required by South Dakota Codified Law. The financial institutions where the collateral is held must be a member of the FDIC. As of June 30, 2022, the financial institution that holds the School District's deposits was not properly collateralized and the deposits at the institution were exposed to custodial credit risk as follows:

| <u>Depository Name</u> | <u>Percent Under-Collateralized</u> | <u>At-Risk Amount</u> |
|-------------------------------|-------------------------------------|-----------------------|
| First Savings Bank of Britton | 10.10% | <u>\$ 197,415</u> |

The actual bank balances at June 30, 2022, were as follows:

| | |
|------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| Insured (FDIC/NCUA) | \$ 250,000 |
| Uninsured, collateral jointly held by state's/School District's agent in the name of the state and the pledging financial institution | <u>1,954,607</u> |
| | <u>\$ 2,204,607</u> |

The School District's carrying amount of deposits at June 30, 2022, was \$2,198,568. Reconciliation of deposits to the government-wide statement of net assets:

| | |
|---------------------------------------------------------------------------------------|----------------------------|
| Cash and cash equivalents | \$ 2,170,257 |
| Add: Fiduciary funds cash (not included in government-wide statement of net position) | <u>28,311</u> |
| Total carrying amounts of deposits at June 30, 2022 | <u><u>\$ 2,198,568</u></u> |

Investments

In general, SDCL 4-5-6 permits School District funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent. There were no investments held as of June 30, 2022.

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

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

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

Concentration of Credit Risk: The School District places no limit on the amount that the School District may invest in any one issuer.

Note 3 - Receivables and Payables

Receivables and payables are aggregated in the government-wide financial statements. However, the fund financial statements present the receivable and payable information in a non-aggregated format. The amount recorded as due from other governments consists of \$220,487 from federal sources and \$243,934 from state sources for reimbursements, grant revenue and utility tax revenues. The School District expects all receivables to be collected within one year. Based on the nature of the receivables, no allowances for estimated uncollectible amounts have been established.

Note 4 - Changes in Capital Assets

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

| Primary Government Governmental Activities | Balance 7/1/2021 (Restated) | Increases | Decreases | Balance 6/30/2022 |
|-----------------------------------------------|-----------------------------------|-------------------|-----------------|----------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 152,762 | \$ - | \$ - | \$ 152,762 |
| Total not being depreciated | 152,762 | - | - | 152,762 |
| Capital assets being depreciated: | | | | |
| Buildings | 13,401,649 | 366,080 | - | 13,767,729 |
| Improvements | 3,877,785 | 142,854 | - | 4,020,639 |
| Machinery and equipment | 1,884,335 | 328,772 | 51,912 | 2,161,195 |
| Total being depreciated | 19,163,769 | 837,706 | 51,912 | 19,949,563 |
| Less accumulated depreciation for: | | | | |
| Buildings | 3,957,606 | 314,003 | - | 4,271,609 |
| Improvements | 2,080,278 | 188,172 | - | 2,268,450 |
| Machinery and equipment | 1,041,959 | 158,269 | 43,662 | 1,156,566 |
| Total accumulated depreciation | 7,079,843 | 660,444 | 43,662 | 7,696,625 |
| Total capital assets being depreciated, net | 12,083,926 | 177,262 | 8,250 | 12,252,938 |
| Governmental activity capital assets, net | <u>\$ 12,236,688</u> | <u>\$ 177,262</u> | <u>\$ 8,250</u> | <u>\$ 12,405,700</u> |

Depreciation expense was charged to functions as follows:

| | |
|------------------------------------------------------|-------------------|
| Governmental activities: | |
| Instruction | \$ 213,114 |
| Support services | 264,930 |
| Co-curricular | 182,400 |
| Total depreciation expense - governmental activities | <u>\$ 660,444</u> |

| Business-Type Activities | Balance 7/1/2021 | Increases | Decreases | Balance 6/30/2022 |
|----------------------------------------------|---------------------|-----------------|-------------|----------------------|
| Capital assets being depreciated | | | | |
| Machinery and equipment | \$ 189,891 | \$ 13,241 | \$ 7,852 | \$ 195,280 |
| Total being depreciated | 189,891 | 13,241 | 7,852 | 195,280 |
| Less accumulated depreciation for: | | | | |
| Machinery and equipment | 65,840 | 11,843 | 7,852 | 69,831 |
| Total accumulated depreciation | 65,840 | 11,843 | 7,852 | 69,831 |
| Total capital assets being depreciated, net | 124,051 | 1,398 | - | 125,449 |
| Business-type activities capital assets, net | <u>\$ 124,051</u> | <u>\$ 1,398</u> | <u>\$ -</u> | <u>\$ 125,449</u> |

Depreciation expense was charged to functions as follows:

| | |
|-------------------------------------------------------|------------------|
| Business-type activities: | |
| Food services | \$ 11,843 |
| Total depreciation expense - business-type activities | <u>\$ 11,843</u> |

Subsequent to year-end, the School District committed to spending approximately \$1.7 million on building and equipment purchases which will be paid with grant funds and cash on hand.

Note 5 - Long-Term Debt

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

| | July 1, 2021 | Increases | Decreases | June 30, 2022 | Due in One Year |
|------------------------------------------|---------------------|---------------------|---------------------|---------------------|--------------------|
| Governmental activities: | | | | | |
| Capital Outlay certificates, Series 2015 | \$ 5,710,000 | \$ - | \$ 5,710,000 | \$ - | \$ - |
| Capital Outlay certificates, Series 2021 | - | 5,285,000 | - | 5,285,000 | 340,000 |
| Other long-term debt - State loan | 72,762 | - | 24,254 | 48,508 | 24,254 |
| Direct financing | 32,543 | - | 7,744 | 24,799 | 8,000 |
| Unamortized premium | 79,289 | 181,166 | 79,289 | 181,166 | 13,936 |
| | <u>\$ 5,894,594</u> | <u>\$ 5,466,166</u> | <u>\$ 5,821,287</u> | <u>\$ 5,539,473</u> | <u>\$ 386,190</u> |

A summary of deferred charges on various bond refundings as of June 30, 2022, follows:

| | Original Cost | 2022 Amortization | Accumulated Amortization | Unamortized Costs |
|----------------|------------------|----------------------|-----------------------------|----------------------|
| 2021 Refunding | <u>\$ 79,289</u> | <u>\$ 5,663</u> | <u>\$ 5,663</u> | <u>\$ 73,626</u> |
| | <u>\$ 79,289</u> | <u>\$ 5,663</u> | <u>\$ 5,663</u> | <u>\$ 73,626</u> |

In October 2021, the School District issued \$5,285,000 of Series 2021 Capital Outlay Refunding Certificates with issuance costs of \$96,831, with an interest rate of 1.05% to 2.00%, and a maturity in January 2035. The proceeds of this issue were used to current refund the Series 2015 Capital Outlay Certificates, with interest rates 1.40% to 4.00%, and maturity in January 2035. The intent of this refunding was to accommodate the lower interest rates. The new issue will have a difference in cash flow requirements between old and new debt and an economic gain (difference between the present value of the debt service on the old and new bonds) of approximately \$668,770 and \$595,731 for the School District.

Debt payable at June 30, 2022, is comprised of the following:

Capital Outlay Certificates

| | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| Capital Outlay Certificates Series 2021, annual principal payments due starting January 2023 ending January 2035, and semi-annual interest payments due each January and July until 2035, interest rates ranging from 1.05% to 2.00%, paid from Capital Outlay Fund. | \$ 5,285,000 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|

Other Long-Term Liabilities

| | |
|---------------------------------------------------------------------------------------------------------------------|--------|
| State loan, annual principal payments due each July until 2023, interest rate of 0%, paid from Capital Outlay Fund. | 48,508 |
|---------------------------------------------------------------------------------------------------------------------|--------|

| | |
|----------------------------------------------------------------------------------------------------------------------------------------------|--------|
| Copier with Century Business Products, Inc., 3.25% interest rate, monthly payments of \$724 ending June 2025, paid from Capital Outlay Fund. | 24,799 |
|----------------------------------------------------------------------------------------------------------------------------------------------|--------|

| | |
|--------------------------|---------------------|
| Plus unamortized premium | <u>181,166</u> |
| | <u>\$ 5,539,473</u> |

The annual debt service requirements to maturity for all debt outstanding as of June 30, 2022, are as follows:

| Year Ending | Capital Outlay Certificates | | State Loan | Financing Lease | | Total | |
|-------------|-----------------------------|-------------------|------------------|------------------|-----------------|---------------------|-------------------|
| | Principal | Interest | Principal | Principal | Interest | Principal | Interest |
| 2023 | \$ 340,000 | \$ 93,705 | \$ 24,254 | \$ 8,000 | \$ 688 | \$ 372,254 | \$ 94,393 |
| 2024 | 370,000 | 86,608 | 24,254 | 8,264 | 434 | 402,518 | 87,042 |
| 2025 | 380,000 | 79,105 | - | 8,535 | 151 | 388,535 | 79,256 |
| 2026 | 385,000 | 71,445 | - | - | - | 385,000 | 71,445 |
| 2027 | 395,000 | 63,655 | - | - | - | 395,000 | 63,655 |
| 2028-2032 | 2,080,000 | 213,655 | - | - | - | 2,080,000 | 213,655 |
| 2033-2035 | 1,335,000 | 40,250 | - | - | - | 1,335,000 | 40,250 |
| | <u>\$ 5,285,000</u> | <u>\$ 648,423</u> | <u>\$ 48,508</u> | <u>\$ 24,799</u> | <u>\$ 1,273</u> | <u>\$ 5,358,307</u> | <u>\$ 649,696</u> |

Note 6 - Other Long-Term Liabilities

Other long-term liabilities at June 30, 2022, is comprised of compensated absences of \$18,740 for payments for vacation which is paid from the fund which the employee is generally compensated from.

During the year ended June 30, 2022, the School District had the following changes in other long-term liabilities:

| | July 1, 2021 | Increases | Decreases | June 30, 2022 | Due in One Year |
|--------------------------|------------------|---------------|-------------|------------------|------------------|
| Governmental activities: | | | | | |
| Compensated absences | <u>\$ 18,490</u> | <u>\$ 250</u> | <u>\$ -</u> | <u>\$ 18,740</u> | <u>\$ 18,740</u> |
| | <u>\$ 18,490</u> | <u>\$ 250</u> | <u>\$ -</u> | <u>\$ 18,740</u> | <u>\$ 18,740</u> |

Note 7 - Restricted Net Position

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

| Restriction | Restricted By | Amount |
|-----------------------------|---------------|---------------------|
| Capital Outlay | Law | \$ 758,616 |
| Special Education | Law | 130,387 |
| SDRS Pension Plan | Pension Plan | <u>389,439</u> |
| Total restricted net assets | | <u>\$ 1,278,442</u> |

Note 8 - Joint Venture - NESC

Northeast Educational Services Cooperative No. 28-201, PO Box 327; Hayti, South Dakota 57241; 605-783-3607.

The School District participates in Northeast Educational Services Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education and other services to member schools. The School District's percentage of participation in the co-op is 5.42% based on student counts.

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

The School District retains no equity in the net assets of the co-op but does have responsibility to fund deficits of the co-op in proportion to the relative participation described above.

Separate financial statements of the co-op are available at its business office in Hayti, South Dakota.

As of June 30, 2022, this joint venture had total unaudited fund equity of approximately \$1,232,381.

Note 9 - Risk Management

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

The School District is a member of the South Dakota School District Health Benefits Fund (SD SDBF). This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local governmental entities. The School District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage provides for deductibles ranging from \$1,500 to \$3,000, and \$3,000 to \$6,000 for single and family policies, respectively, and 20% coinsurance.

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

Liability Insurance

The School District purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance provider. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Workers' Compensation

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provides workers' compensation insurance coverage for participating members of the pool. The objective of the fund is to formulate, develop and administer, on behalf of the member organizations, a program of workers' compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to, and cooperate with, the fund to resolve any workers' compensation claims. The School District pays an annual premium to provide workers' compensation coverage for its employees under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience-to-date of the fund members. The School District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool-retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to \$1,000,000 per individual, per incident.

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

Unemployment Benefits

The School District provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

Note 10 - Pension Plan**Plan Information**

All employees working more than 20 hours per week during the 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, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

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

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

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

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

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

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A members, 6.0% of salary; Class B judicial members, 9.0% of salary; and Class B public safety members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The School District's share of contributions to the SDRS for the fiscal years ending June 30, 2022, 2021, and 2020, was \$151,250, \$150,415, and \$140,782, respectively, equal to the required contributions each year.

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

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

| | |
|-------------------------------------------------------------------------|---------------------|
| Proportionate share of pension liability | \$ 15,318,179 |
| Less proportionate share of net pension restricted for pension benefits | <u>16,164,190</u> |
| Proportionate share of net pension liability (asset) | <u>\$ (846,011)</u> |

At June 30, 2022, the School District reported a liability (asset) of \$(846,011) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2021, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the School District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2021, the School District's proportion was 0.11047000%, which is a increase of 0.0035590% from its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the School District recognized as expense (reduction of pension expense) of \$(190,505). At June 30, 2022, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-------------------------------------|
| Difference between expected and actual experience | \$ 30,374 | \$ 2,218 |
| Changes in assumption | 972,904 | 423,670 |
| Net difference between projected and actual earnings on pension plan investments | - | 1,208,544 |
| Changes in proportion and difference between School District contributions and proportionate share of contributions | 23,332 | - |
| School District contributions subsequent to the measurement date | <u>151,250</u> | <u>-</u> |
| Total | <u>\$ 1,177,860</u> | <u>\$ 1,634,432</u> |

There is \$151,250 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

| <u>Year Ended June 30,</u> | |
|----------------------------|---------------------|
| 2023 | \$ (138,281) |
| 2024 | (100,292) |
| 2025 | (29,267) |
| 2026 | <u>(339,982)</u> |
| Total | <u>\$ (607,822)</u> |

Actuarial Assumptions

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

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

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

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

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

Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

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

Discount Rate

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

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

The following presents the School District's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50%, as well as what the School District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 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> |
|----------------------------------------------------------------------------|--------------------|----------------------------------|--------------------|
| School District's proportionate share of the net pension liability (asset) | \$ 1,369,903 | \$ (846,011) | \$ (2,644,817) |

Pension Plan Fiduciary Net Position

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

Note 11 - Correction of Error

During 2022, the School District identified misstatements within the 2021 financial statements related to the understatement of capital assets and accumulated depreciation in Governmental Activities for missing assets from prior years, and overstatement of contracts payable and expense in the Other Enterprise Fund and Business-Type Activities for an improperly accrued payable from prior years.

The School District restated the net position of the funds indicated below to appropriately reflect the July 1, 2021, balances as follows:

| | Governmental Activites | Other Enterprise Fund | Business-Type Activities |
|----------------------------------------------------------------|----------------------------|-----------------------------|-----------------------------|
| Net position (deficit) at July 1, 2021, as previously reported | \$ 7,150,242 | \$ (8,019) | \$ 207,839 |
| Restatement | <u>992,137</u> | <u>2,559</u> | <u>2,559</u> |
| Net position (deficit) at July 1, 2021, as restated | <u><u>\$ 8,142,379</u></u> | <u><u>\$ (5,460)</u></u> | <u><u>\$ 210,398</u></u> |



Required Supplementary Information
June 30, 2022

Britton-Hecla School District 45-4

Britton-Hecla School District 45-4
 Budgetary Comparison Schedule – Budgetary Basis – General Fund
 Year Ended June 30, 2022

| | Budgeted Amounts | | Actual Amounts | Variance with |
|-------------------------------------------------------------------------------------------------|------------------|--------------|-------------------|----------------------------------------|
| | Original | Final | (Budgetary Basis) | Final Budget Positive (Negative) |
| Revenues | | | | |
| 1000 Revenue from local sources | | | | |
| 1100 Taxes: | | | | |
| 1110 Ad valorem taxes | \$ 1,934,990 | \$ 1,934,990 | \$ 1,965,036 | \$ 30,046 |
| 1120 Prior year's ad valorem taxes | 15,000 | 15,000 | 9,149 | (5,851) |
| 1140 Gross receipts taxes | 270,000 | 270,000 | 243,934 | (26,066) |
| 1190 Penalties and interest on taxes | 7,500 | 7,500 | 6,894 | (606) |
| 1500 Earnings on investments and deposits | 750 | 750 | 1,345 | 595 |
| 1700 Co-curricular activities: | | | | |
| 1710 Admissions | 29,800 | 29,800 | 31,661 | 1,861 |
| 1740 Rentals | 1,000 | 1,000 | 2,535 | 1,535 |
| 1790 Other pupil activity | 2,700 | 2,700 | 457 | (2,243) |
| 1900 Other revenue from local sources: | | | | |
| 1920 Contributions and donations | 2,000 | 2,000 | 1,908 | (92) |
| 1970 Charges for services | 3,000 | 3,000 | 2,665 | (335) |
| 1990 Other | 7,500 | 7,500 | 65,626 | 58,126 |
| 2000 Revenue from intermediate sources | | | | |
| 2100 County sources: | | | | |
| 2110 County apportionment | 20,000 | 20,000 | 15,016 | (4,984) |
| 3000 Revenue from state sources | | | | |
| 3100 Grants-in-aid: | | | | |
| 3110 Unrestricted grants-in-aid | 867,465 | 867,465 | 970,714 | 103,249 |
| 4000 Revenue from federal sources | | | | |
| 4100 Grants-in-aid: | | | | |
| 4130 Unrestricted grants-in-aid received from federal government through an intermediate source | 5,000 | 5,000 | 14,234 | 9,234 |
| 4140 Restricted grants-in-aid received directly from federal government | 13,200 | 13,200 | 13,200 | - |
| 4150-4199 Restricted grants-in-aid received from federal government through the state | 168,521 | 172,561 | 163,325 | (9,236) |
| 4900 Other federal revenue | 12,000 | 12,000 | - | (12,000) |
| Total revenues | 3,360,426 | 3,364,466 | 3,507,699 | 143,233 |

Britton-Hecla School District 45-4
Budgetary Comparison Schedule – Budgetary Basis – General Fund
Year Ended June 30, 2022

| | Budgeted Amounts | | Actual Amounts | Variance with |
|-------------------------------------------------|------------------|------------|-------------------|----------------------------------------|
| | Original | Final | (Budgetary Basis) | Final Budget Positive (Negative) |
| Expenditures | | | | |
| 1000 Instruction | | | | |
| 1100 Regular programs: | | | | |
| 1110 Elementary | 973,304 | 973,304 | 959,445 | 13,859 |
| 1120 Middle/junior high | 383,757 | 383,757 | 394,155 | (10,398) |
| 1130 High school | 642,001 | 643,044 | 548,821 | 94,223 |
| 1200 Special programs: | | | | |
| 1270 Educationally deprived | 109,155 | 110,655 | 99,841 | 10,814 |
| 2000 Support services | | | | |
| 2100 Pupils: | | | | |
| 2120 Guidance | 94,818 | 94,551 | 93,292 | 1,259 |
| 2130 Health | 1,500 | 1,500 | 576 | 924 |
| 2200 Support services - instructional staff: | | | | |
| 2210 Improvement of instruction | 23,320 | 22,916 | 22,176 | 740 |
| 2220 Educational media | 107,743 | 108,743 | 92,842 | 15,901 |
| 2300 Support services - general administration: | | | | |
| 2310 Board of Education | 38,590 | 45,590 | 46,389 | (799) |
| 2320 Executive administration | 150,667 | 152,056 | 151,521 | 535 |
| 2400 Support services - school administration: | | | | |
| 2410 Office of the Principal | 184,504 | 184,504 | 179,872 | 4,632 |
| 2490 Other school administrative | 500 | 500 | 234 | 266 |
| 2500 Support services - business: | | | | |
| 2520 Fiscal services | 134,050 | 134,050 | 133,445 | 605 |
| 2540 Operation and maintenance of plant | 538,421 | 544,615 | 463,862 | 80,753 |
| 2550 Pupil transportation | 232,538 | 246,538 | 236,843 | 9,695 |
| 2590 Other | 3,645 | 3,644 | 3,644 | - |
| 2600 Support services - central: | | | | |
| 2640 Staff | 750 | 1,000 | 952 | 48 |
| 6000 Co-curricular activities: | | | | |
| 6100 Male activities | 53,500 | 53,500 | 50,794 | 2,706 |
| 6200 Female activities | 50,952 | 50,952 | 50,327 | 625 |
| 6500 Transportation | 7,050 | 7,050 | 7,985 | (935) |
| 6900 Combined activities | 104,624 | 104,624 | 160,358 | (55,734) |
| Total expenditures | 3,835,389 | 3,867,093 | 3,697,374 | 169,719 |
| Excess of Revenues over (under) Expenditures | (474,963) | (502,627) | (189,675) | 312,952 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 250,000 | 250,000 | - | (250,000) |
| Compensation for property loss | - | - | 5,698 | 5,698 |
| Total other financing sources | 250,000 | 250,000 | 5,698 | (244,302) |
| Net Change in Fund Balances | (224,963) | (252,627) | (183,977) | 68,650 |
| Fund Balance - Beginning | 993,255 | 993,255 | 993,255 | - |
| Fund Balance - Ending | \$ 768,292 | \$ 740,628 | \$ 809,278 | \$ 68,650 |

Britton-Hecla School District 45-4
Budgetary Comparison Schedule – Budgetary Basis – Capital Outlay Fund
Year Ended June 30, 2022

| | Budgeted Amounts | | Actual Amounts | Variance with |
|---------------------------------------------------------------------------------------------|-------------------|--------------------|--------------------|----------------------------------------|
| | Original | Final | (Budgetary Basis) | Final Budget Positive (Negative) |
| Revenues | | | | |
| 1000 Revenue from local sources | | | | |
| 1100 Taxes: | | | | |
| 1110 Ad valorem taxes | \$ 1,500,000 | \$ 1,500,000 | \$ 1,507,879 | \$ 7,879 |
| 1120 Prior year's ad valorem taxes | 8,000 | 8,000 | 3,090 | (4,910) |
| 1190 Penalties and interest on taxes | 2,500 | 2,500 | 2,492 | (8) |
| 1500 Earnings on investments and deposits | 250 | 250 | 2,074 | 1,824 |
| 1900 Other revenue: | | | | |
| 1920 Contributions and donations | - | - | 20,000 | 20,000 |
| 1950 Refund of prior years' expenditures | - | - | 402 | 402 |
| 1990 Other local income | 1,000 | 1,000 | 16 | (984) |
| 4000 Revenue from federal sources | | | | |
| 4100 Grants-in-aid: | | | | |
| 4150-4199 Restricted grants-in-aid received from federal government through the state | 318,085 | 358,276 | 379,529 | 21,253 |
| Total revenues | 1,829,835 | 1,870,026 | 1,915,482 | 45,456 |
| Expenditures | | | | |
| 1000 Instruction | | | | |
| 1100 Regular Programs: | | | | |
| 1110 Elementary | 85,220 | 84,143 | 71,192 | 12,951 |
| 1120 Middle School | 13,748 | 12,561 | 13,293 | (732) |
| 1130 High School | 101,698 | 142,390 | 163,412 | (21,022) |
| 2000 Support services | | | | |
| 2220 Educational media | 18,000 | 19,997 | 19,037 | 960 |
| 2500 Support services - business: | | | | |
| 2520 Fiscal services | - | - | 3,898 | (3,898) |
| 2530 Facilities acquisition and construction | 432,356 | 429,053 | 380,497 | 48,556 |
| 2540 Operation and maintenance of plant | 212,377 | 212,574 | 202,808 | 9,766 |
| 2550 Transportation | 230,468 | 230,468 | 230,468 | - |
| 5000 Debt services | 553,400 | 6,049,384 | 5,995,752 | 53,632 |
| 6000 Co-curricular activities: | | | | |
| 6100 Male activities | 3,500 | 3,500 | 5,704 | (2,204) |
| 6200 Female activities | 10,045 | 10,045 | 10,166 | (121) |
| 6900 Combined activities | 57,273 | 60,146 | 48,730 | 11,416 |
| Total expenditures | 1,718,085 | 7,254,261 | 7,144,957 | 109,304 |
| Excess of Revenues over Expenditures | 111,750 | (5,384,235) | (5,229,475) | 154,760 |
| Other Financing Sources (Uses) | | | | |
| Sale of surplus property | 10,000 | 10,000 | 3,387 | (6,613) |
| Transfers out | (250,000) | (250,000) | - | 250,000 |
| Proceeds from long-term debt | - | 5,285,000 | 5,285,000 | - |
| Premium on bonds issued | - | 181,166 | 181,166 | - |
| Compensation for property loss | - | - | 4,293 | 4,293 |
| Total other financing sources (uses) | (240,000) | 5,226,166 | 5,473,846 | 247,680 |
| Net Change in Fund Balances | (128,250) | (158,069) | 244,371 | 402,440 |
| Fund Balance - Beginning | 512,337 | 512,337 | 512,337 | - |
| Fund Balance - Ending | \$ 384,087 | \$ 354,268 | \$ 756,708 | \$ 402,440 |

See Notes to Required Supplementary Information – Budgetary Comparison Schedules

Britton-Hecla School District 45-4
 Budgetary Comparison Schedule – Budgetary Basis – Special Education Fund
 Year Ended June 30, 2022

| | Budgeted Amounts | | Actual Amounts | Variance with |
|----------------------------------------------|------------------|------------|-------------------|----------------------------------------|
| | Original | Final | (Budgetary Basis) | Final Budget Positive (Negative) |
| Revenues | | | | |
| 1000 Revenue from local sources | | | | |
| 1100 Taxes: | | | | |
| 1110 Ad valorem taxes | \$ 612,500 | \$ 612,500 | \$ 615,538 | \$ 3,038 |
| 1120 Prior year's ad valorem taxes | 2,000 | 2,000 | 909 | (1,091) |
| 1190 Penalties and interest on taxes | 500 | 500 | 903 | 403 |
| 1500 Earnings on investments and deposits | 75 | 75 | 623 | 548 |
| 1900 Other revenue from local sources: | | | | |
| 1920 Contributions and donations | 500 | 500 | 980 | 480 |
| 1970 Charges for services | 3,000 | 3,000 | 1,284 | (1,716) |
| 1990 Other | 1,000 | 1,000 | 355 | (645) |
| Total revenues | 619,575 | 619,575 | 620,592 | 1,017 |
| Expenditures | | | | |
| 1000 Instruction | | | | |
| 1200 Special programs: | | | | |
| 1220 Programs for special education | 458,916 | 458,916 | 457,165 | 1,751 |
| 2000 Support services | | | | |
| 2100 Pupils: | | | | |
| 2120 Guidance | 750 | 750 | - | 750 |
| 2140 Psychological | 20,540 | 20,540 | 15,518 | 5,022 |
| 2150 Speech pathology | 35,880 | 35,880 | 32,535 | 3,345 |
| 2170 Student therapy services | 32,490 | 32,490 | 25,308 | 7,182 |
| 2200 Support services - instructional staff: | | | | |
| 2210 Improvement of instruction | 500 | 500 | - | 500 |
| 2700 Support services - special education: | | | | |
| 2710 Administration costs | 25,722 | 25,722 | 25,714 | 8 |
| 2730 Transportation costs | 21,350 | 21,350 | 21,100 | 250 |
| 2750 Other special education costs | 23,427 | 23,427 | 12,520 | 10,907 |
| Total expenditures | 619,575 | 619,575 | 589,860 | 29,715 |
| Net Change in Fund Balances | - | - | 30,732 | 30,732 |
| Fund Balance - Beginning | 98,771 | 98,771 | 98,771 | - |
| Fund Balance - Ending | \$ 98,771 | \$ 98,771 | \$ 129,503 | \$ 30,732 |

Note 1 - Basis of Presentation

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

Note 2 - Budgets and Budgetary Accounting

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

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

Britton-Hecla School District 45-4

Schedule of Employer's Share of Net Pension Liability (Asset) and Schedule of Employer's Contributions Year Ended June 30, 2022

Schedule of Employer's Share of Net Pension Liability (Asset)

| Pension Plan | Fiscal Year Ending | Employer's Percentage of the Net Pension Liability/ (Asset) | Employer's Proportionate Share of the Net Pension Liability/ (Asset) (a) | Employer's Covered Payroll (b) | Employer's Proportionate Share of the Net Pension Liability/ (Asset) as a Percentage of its Covered Payroll (a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability/ (Asset) |
|--------------|--------------------|-------------------------------------------------------------|--------------------------------------------------------------------------|--------------------------------|-------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| SDRS | 6/30/2022 | 0.1105% | \$ (846,011) | \$ 2,506,901 | -33.7% | 105.52% |
| SDRS | 6/30/2021 | 0.1069% | (4,643) | 2,346,919 | -0.2% | 100.04% |
| SDRS | 6/30/2020 | 0.1092% | (11,567) | 2,320,778 | -0.5% | 100.09% |
| SDRS | 6/30/2019 | 0.1185% | (2,763) | 2,462,788 | -0.1% | 100.02% |
| SDRS | 6/30/2018 | 0.1297% | (11,766) | 2,634,242 | -0.4% | 100.10% |
| SDRS | 6/30/2017 | 0.1273% | 430,020 | 2,420,667 | 17.8% | 96.89% |
| SDRS | 6/30/2016 | 0.1267% | (537,274) | 2,312,754 | -23.2% | 104.10% |
| SDRS | 6/30/2015 | 0.1366% | (984,301) | 2,389,132 | -41.2% | 107.30% |

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

Schedule of Employer's Contributions

| Pension Plan | Fiscal Year Ending | Statutorily Required Contribution (a) | Contributions in Relation to the Statutorily Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | Covered Payroll (d) | Contributions as a Percentage of Covered Payroll (b/d) |
|--------------|--------------------|---------------------------------------|------------------------------------------------------------------------|----------------------------------------|---------------------|--------------------------------------------------------|
| SDRS | 6/30/2022 | \$ 151,250 | \$ 151,250 | \$ - | \$ 2,520,821 | 6.0% |
| SDRS | 6/30/2021 | 150,415 | 150,415 | - | 2,506,901 | 6.0% |
| SDRS | 6/30/2020 | 140,782 | 140,782 | - | 2,346,919 | 6.0% |
| SDRS | 6/30/2019 | 139,247 | 139,247 | - | 2,320,778 | 6.0% |
| SDRS | 6/30/2018 | 147,768 | 147,768 | - | 2,462,788 | 6.0% |
| SDRS | 6/30/2017 | 158,055 | 158,055 | - | 2,634,242 | 6.0% |
| SDRS | 6/30/2016 | 145,241 | 145,241 | - | 2,420,667 | 6.0% |
| SDRS | 6/30/2015 | 138,766 | 138,766 | - | 2,312,754 | 6.0% |

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

Changes from Prior Valuation

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

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

Benefit Provision Changes

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

Actuarial Assumption Changes

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% (0.5% prior to 2021) and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that, if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2020, and the July 2021 SDRS COLA was limited to a restricted maximum of 1.41%. As of June 30, 2021, the FVFR assuming the COLA is equal to the baseline COLA assumption is greater than 100%. The July 2022 SDRS COLA will equal inflation, between 0% and 3.5%. For the June 30, 2020 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.41%. For this June 30, 2021 Actuarial Valuation, future COLAs are assumed to equal the baseline COLA assumption of 2.25%.

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

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

Actuarial Method Changes

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



Federal Awards Reports in Accordance
with the Uniform Guidance
June 30, 2022

Britton-Hecla School District 45-4

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* 1

Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control over
Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
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Schedule of Expenditures of Federal Awards 6

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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***

To the School Board
Britton-Hecla School District 45-4
Britton, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Britton-Hecla School District 45-4, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 24, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Britton-Hecla School District 45-4's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Britton-Hecla School District 45-4's internal control. Accordingly, we do not express an opinion on the effectiveness of Britton-Hecla School District 45-4'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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001 and 2022-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Britton-Hecla School District 45-4's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

School District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Britton-Hecla School District 45-4's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Britton-Hecla School District 45-4's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

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

Aberdeen, South Dakota
March 24, 2023



**Independent Auditor's Report on Compliance for Each Major Federal Program;
Report on Internal Control over Compliance; and Report on the Schedule of Expenditures
of Federal Awards Required by the Uniform Guidance**

To the School Board
Britton-Hecla School District 45-4
Britton, South Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Britton-Hecla School District 45-4's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Britton-Hecla School District 45-4's major federal programs for the year ended June 30, 2022. Britton-Hecla School District 45-4's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Britton-Hecla School District 45-4 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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

We are required to be independent of Britton-Hecla School District 45-4 and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the School District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Britton-Hecla School District 45-4's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Britton-Hecla School District 45-4's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Britton-Hecla School District 45-4's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Britton-Hecla School District 45-4's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Britton-Hecla School District 45-4's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Britton-Hecla School District 45-4's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control over Compliance

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

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Britton-Hecla School District 45-4 as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Britton-Hecla School District 45-4's basic financial statements. We issued our report thereon dated March 24, 2023, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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.



Aberdeen, South Dakota
March 24, 2023

Britton-Hecla School District 45-4
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal Financial Assistance Listing/Federal CFDA Number | Pass-through Entity Identifying Number | Expenditures |
|-------------------------------------------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------|--------------------------|
| Department of Agriculture | | | |
| Passed through South Dakota Division of Elementary and Secondary Education | | | |
| Child Nutrition Cluster | | | |
| Non-Cash Assistance (Commodities): | | | |
| National School Lunch Program | 10.555 | *** | \$ 20,369 |
| National School Lunch Program | 10.555 | *** | 312,918 |
| School Breakfast Program | 10.553 | *** | <u>64,542</u> |
| Total Child Nutrition Cluster | | | <u>397,829</u> |
| Total Department of Agriculture | | | <u>397,829</u> |
| Department of Education | | | |
| Direct Federal Funding: | | | |
| Rural Education | 84.358 | N/A | 13,200 |
| Passed through the SD Department of Education: | | | |
| Title I Grants to Local Educational Agencies | 84.010 | *** | 111,855 |
| Career and Technical Education - Basic Grants to States | 84.048 | *** | 30,668 |
| Improving Teacher Quality State Grants | 84.367 | *** | 28,568 |
| COVID-19 - Education Stabilization Fund: | | | |
| Elementary and Secondary School Emergency Relief Fund (ESSER II) | 84.425D | *** | 306,610 |
| American Rescue Plan Elementary and Secondary School Emergency Relief | 84.425U | *** | <u>43,902</u> |
| Total Department of Education | | | <u>534,803</u> |
| Department of Health and Human Services | | | |
| Passed through State of South Dakota Department of Social Services | | | |
| COVID-19 - Child Care and Development Block Grant | 93.575 | *** | <u>9,595</u> |
| Total Department of Health and Human Services | | | <u>9,595</u> |
| United States Environmental Protection Agency | | | |
| Passed through the South Dakota Department of Natural Resources | | | |
| Diesel Emissions Reduction Act (DERA) State Grants: | | | |
| South Dakota Clean Diesel Grant Program | 66.04 | *** | <u>21,251</u> |
| Total United States Environmental Protection Agency | | | <u>21,251</u> |
| Total Federal Financial Assistance | | | <u><u>\$ 963,478</u></u> |

*** - Pass through number not provided to the School District.

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Britton-Hecla School District 45-4 (the School District) under programs of the federal government for the year ended June 30, 2022. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Britton-Hecla School District 45-4, it is not intended to and does not present the financial position, changes in net position or fund balance, or cash flows of Britton-Hecla School District 45-4.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting. No federal financial assistance has been provided to a subrecipient. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Indirect Cost Rate

The School District does not draw for indirect administrative expenses and has not elected to use the 10% de minimus cost rate.

Note 4 - Food Donation

Nonmonetary assistance is reported in this schedule at the fair market value of the commodities received and disbursed. At June 30, 2022, the School District had food commodities totaling \$3,228 in inventory.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

| | |
|------------------------------------------------------------------------------|------------|
| Type of auditor's report issued | Unmodified |
| Internal control over financial reporting: | |
| Material weaknesses identified | Yes |
| Significant deficiencies identified not considered to be material weaknesses | No |
| Noncompliance material to financial statements noted? | No |

FEDERAL AWARDS

| | |
|-------------------------------------------------------------------------------------------------------------------|---------------|
| Internal control over major program: | |
| Material weaknesses identified | No |
| Significant deficiencies identified not considered to be material weaknesses | None Reported |
| Type of auditor's report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516a: | No |

Identification of major programs:

| <u>Name of Federal Program</u> | <u>Federal Financial Assistance Listing</u> |
|--------------------------------------------------------------------------|---------------------------------------------|
| Child Nutrition Cluster | |
| National School Lunch Program | 10.555 |
| School Breakfast Program | 10.553 |
| Dollar threshold used to distinguish between type A and type B programs: | \$ 750,000 |
| Auditee qualified as low-risk auditee? | No |

Section II – Financial Statement Findings

Finding 2022-001 - Lack of Segregation of Duties

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

Condition: Britton-Hecla School District 45-4 has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions because of a lack of segregation of duties.

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

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

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

Views of Responsible Officials: Management agrees with the finding.

Finding 2022-002 - Preparation of Financial Statements, Footnotes and Schedule of Expenditures of Federal Awards (SEFA) including Significant Audit Journal Entries and Restatement

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

Condition: Britton-Hecla School District 45-4 requested the external auditors to assist in the preparation of the financial statements and related footnotes along with assistance is preparing the SEFA for the year ended June 30, 2022. As part of audit procedures and preparation of the financial statements, we identified and proposed various audit adjustments, some of which were material, that were not identified by the School District's current internal controls. We also identified certain errors in previously issued financial statements resulting in a restatement of beginning net position that were not identified by management in the prior year.

Cause: The limited size of the School District's staff and resources causes the inability to prepare the financial statements, footnotes and SEFA and cause the need for auditors to, at times, propose material journal entries as well as restate the prior-year financial statements.

Effect: This condition may affect the School District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. It may also affect the condition of financial information throughout the year being used by management in analysis and decision making and increase the risk that potential misstatements remain present in the financial statements.

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

Views of Responsible Officials: Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

None noted.



BRITTON-HECLA SCHOOL DISTRICT 45-4

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Superintendent Steve Benson, HS Principal Carrie James, Elementary Principal Kyla Richter, Business Manager Kayla Hastings
The mission of the Britton-Hecla School District is to promote a positive, challenging and safe environment for every student.

Management's Response to Auditor's Findings:
Summary Schedule of Prior Audit Findings and
Corrective Action Plan
June 30, 2022

Prepared by Management of
Britton-Hecla School District 45-4

Britton-Hecla School District 45-4 - Summary Schedule of Prior Audit Findings

Finding 2021-001 – Lack of Segregation of Duties

Initial Fiscal Year Finding Occurred: 2014

Finding Summary: Due to the limited number of office personnel, the School District does not have adequate staffing to facilitate proper segregation of duties in internal accounting controls over the execution and recording of revenues, expenditures, and payroll functions.

Status: This finding, due to cost considerations, has not been resolved and is restated in the current finding 2022-001.

Finding 2021-002 – Preparation of Financial Statements, Footnotes and Schedule of Expenditures of Federal Awards (SEFA) including Significant Audit Journal Entries

Initial Fiscal Year Finding Occurred: 2014

Finding Summary: The School District requested Eide Bailly LLP to prepare the financial statements and accompanying notes to the financial statements along with the schedule of expenditures of federal awards. As part of preparing the financial statements, material audit adjusting journal entries were necessary.

Status: This finding, due to cost considerations, has not been resolved and is restated in the current finding 2022-002.

Finding 2022-001 – Lack of Segregation of Duties

Finding Summary: Due to the limited number of office personnel, the School District does not have adequate staffing to facilitate proper segregation of duties in internal accounting controls over the execution and recording of revenues, expenditures, and payroll functions.

Responsible Individual: Kayla Hastings, Business Manager

Corrective Action Plan: Due to the size of the School District, management accepts the risk associated with lack of segregation of duties in the School District.

Anticipated Completion Date: Ongoing

Finding 2022-002 – Preparation of Financial Statements, Footnotes and Schedule of Expenditures of Federal Awards (SEFA) including Significant Audit Journal Entries and Restatement

Finding Summary: The School District requested Eide Bailly LLP to prepare the financial statements and accompanying notes to the financial statements along with the schedule of expenditures of federal awards. As part of preparing the financial statements, material audit adjusting journal entries were necessary.

Responsible Individual: Kayla Hastings, Business Manager

Corrective Action Plan: Due to the size of the School District, management accepts the risk associated with requesting the auditors to prepare the financial statements and related footnotes along with schedule of expenditures of federal awards. The School District will review transactions prior to the beginning of the audit to help ensure all transactions are properly recorded and necessary adjustments have been made.

Anticipated Completion Date: Ongoing