

**HILL CITY SCHOOL DISTRICT NO. 51-2**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED JUNE 30, 2025



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## INDEPENDENT AUDITOR'S REPORT

School Board  
Hill City School District No. 51-2  
Hill City, South Dakota

### **Report on the Financial Statements**

#### ***Opinions***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hill City School District No. 51-2 (the District), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2025, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

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

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 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 there is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as a fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, 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 generally accepted auditing standards 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 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 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 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 other internal control matters that we identified during the audit.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information, and pension 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2026 on our consideration of the 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 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 District's internal control over financial reporting and compliance.

  
KETEL THORSTENSON, LLP  
Certified Public Accountants

March 9, 2026

## HILL CITY SCHOOL DISTRICT NO. 51-2

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEAR ENDED JUNE 30, 2025

This section of the District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2025. Please read it in conjunction with the District's financial statements, which follow this section.

#### FINANCIAL HIGHLIGHTS

- The District's net position from governmental and business-type activities increased \$1,498,620.
- The total cost of the District's programs increased by approximately 11.2 percent, primarily due to salary and corresponding benefits increases.
- The general fund reported a \$4,808,118 current year fund balance.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District's government, reporting the District's operations in more detail than the government-wide statements.
  - The governmental funds statements tell how general government services were financed in the short-term, as well as what remains for future spending.
  - Proprietary fund statements offer short and long-term financial information about the activities that the school operates like businesses. The proprietary funds operated by the District are Food Service and Fitness Center.
  - Fiduciary fund statements provide information about the financial relationships - like scholarship plans for graduating students - in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

## HILL CITY SCHOOL DISTRICT NO. 51-2

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEAR ENDED JUNE 30, 2025

#### OVERVIEW OF THE FINANCIAL STATEMENTS

##### Government-wide Statements

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

The two government-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in the District's property tax base and changes in the state school aid funding formula from the State of South Dakota.

The government-wide financial statements of the District are reported in two categories:

- **Governmental Activities** - This category includes the District's basic instructional services (elementary, high school educational programs, etc.), support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.) and capital equipment purchases. Property taxes, state grants, federal grants, and interest earnings finance most of these activities.
- **Business-Type Activities** - The District charges a fee to students to help cover the costs of providing lunch services to all students. The District also charges for services provided for use of the Fitness Center for the community. The Food Service and Fitness Center Funds are the business-type activities of the District.

##### Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending for particular purposes.

- State law requires some of the funds.
- The School Board establishes other funds to control and manage money for particular purposes.

## HILL CITY SCHOOL DISTRICT NO. 51-2

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEAR ENDED JUNE 30, 2025

#### OVERVIEW OF THE FINANCIAL STATEMENTS

##### Fund Financial Statements

The District has three kinds of funds:

- **Governmental Funds** – Most of the District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances remaining at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are greater or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds' statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service and Fitness Center Funds are the proprietary funds maintained by the District.
- **Fiduciary Funds** – The District is the trustee, or fiduciary, for various external and internal parties. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2025**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

<b>Figure A-1</b>				
	<b>Government-wide Statements</b>	<b>Fund Statements</b>		
<b>Scope</b>	Entire District government (except fiduciary funds)	<b>Governmental Funds</b> The activities of the District that are not proprietary or fiduciary, such as elementary and high school education programs	<b>Proprietary Funds</b> Activities the District operates similar to private business- food service and driver's education	<b>Fiduciary Funds</b> Instances in which the District is the trustee or agent for someone else's resources
<b>Required Financial Statements</b>	Statement of Net Position and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances	Balance Sheet; Statement of Revenues, Expenses and Changes in Fund Net Position; and Statement of Cash Flows	Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<b>Type of Asset/ Liability Information</b>	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets although they can
<b>Type of Inflow/ Outflow Information</b>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2025**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

Net Position

The District’s combined net position increased as follows:

	<b>Table A-1</b>					
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	2024	2025	2024	2025	2024	2025
Current and Other Assets	\$ 15,259,880	\$ 15,745,216	\$ 217,693	\$ 184,651	\$ 15,477,573	\$ 15,929,867
Capital Assets	9,074,834	9,770,488	2,039	2,038	9,076,873	9,772,526
<b>Total Assets</b>	<b>24,334,714</b>	<b>25,515,704</b>	<b>219,732</b>	<b>186,689</b>	<b>24,554,446</b>	<b>25,702,393</b>
Pension Related Deferred Outflows of Resources	\$ 1,040,791	\$ 923,701	\$ -	\$ -	\$ 1,040,791	\$ 923,701
Long-Term Liabilities	\$ 30,672	\$ 131,097	\$ -	\$ -	\$ 30,672	\$ 131,097
Other Liabilities	569,998	708,627	19,532	23,206	589,530	731,833
<b>Total Liabilities</b>	<b>600,670</b>	<b>839,724</b>	<b>19,532</b>	<b>23,206</b>	<b>620,202</b>	<b>862,930</b>
Taxes Levied for Future Period	3,700,633	3,063,959	-	-	3,700,633	3,063,959
Pension Related Deferred Inflows of Resources	607,986	607,096	-	-	607,986	607,096
<b>Total Deferred Inflows</b>	<b>4,308,619</b>	<b>3,671,055</b>	<b>-</b>	<b>-</b>	<b>4,308,619</b>	<b>3,671,055</b>
Net Position:						
Net Investment in Capital Assets	9,074,834	9,770,488	2,039	2,038	9,076,873	9,772,526
Restricted	6,899,605	7,255,318	-	-	6,899,605	7,255,318
Unrestricted	4,491,777	4,902,820	198,161	161,445	4,689,938	5,064,265
<b>Total Net Position</b>	<b>\$ 20,466,216</b>	<b>\$ 21,928,626</b>	<b>\$ 200,200</b>	<b>\$ 163,483</b>	<b>\$ 20,666,416</b>	<b>\$ 22,092,109</b>
Beginning Net Position	\$ 17,824,906	\$ 20,466,216	\$ 191,283	\$ 200,200	\$ 18,016,189	\$ 20,666,416
Change in Net Position	2,641,310	1,462,410	8,917	(36,717)	2,650,227	1,425,693
Percentage of Change in Net Position	14.82%	7.15%	4.66%	-18.34%	14.71%	6.90%

This section explains the differences between the current and prior year’s assets, liabilities, and changes in net position.

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the District, consisting of compensated absences, have been reported in this manner in the Statement of Net Position. The difference between the District’s assets and liabilities is its net position.

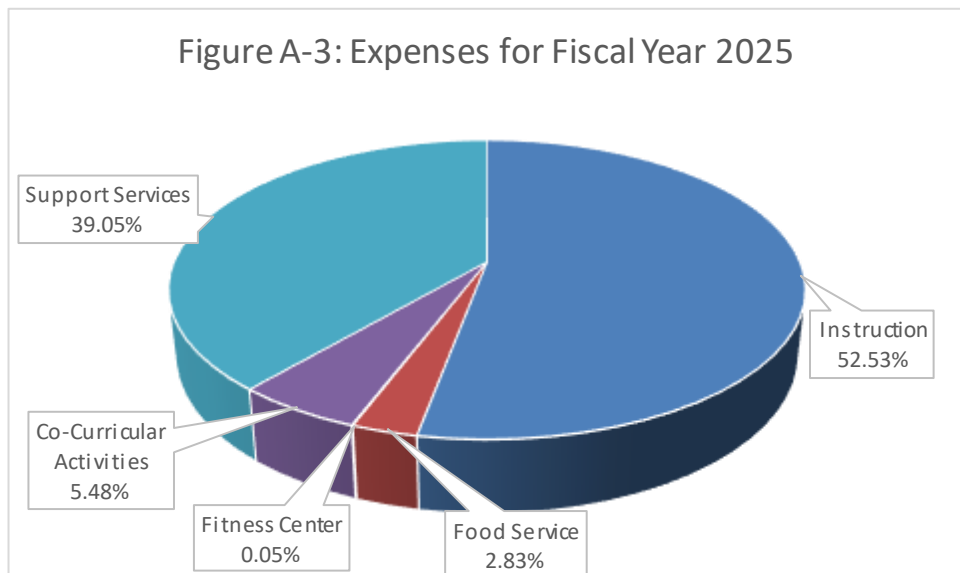
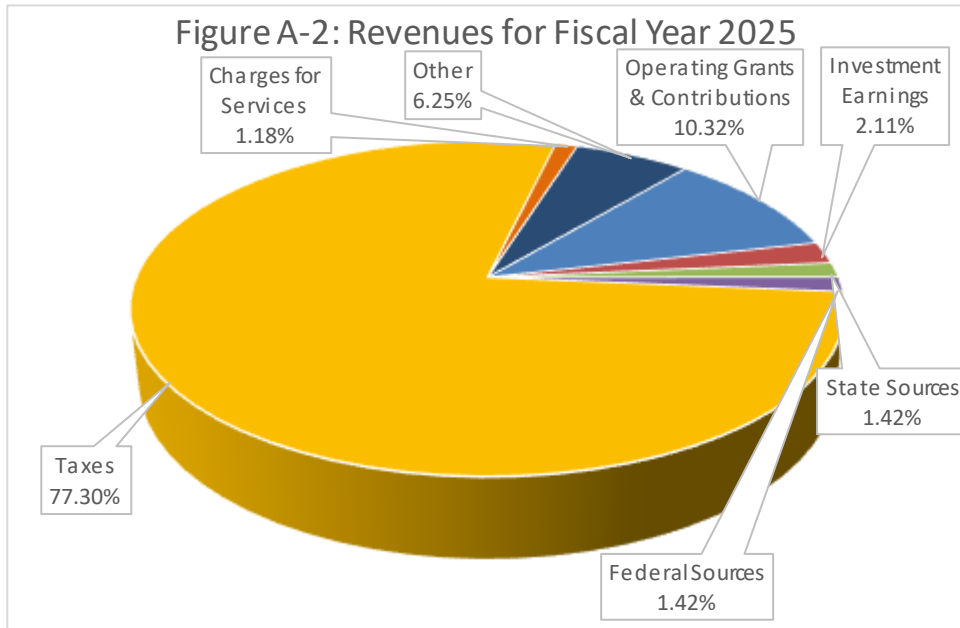
**HILL CITY SCHOOL DISTRICT NO. 51-2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2025**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

Changes in Net Position

This section illustrates condensed financial comparison of revenues and expenses and provides explanations for significant differences. The District's revenues totaled \$9,961,067 for the year ended June 30, 2025. (See Table A-2). Approximately 77 percent of the District's revenue comes from property and other taxes, with another 3 percent coming from state and federal aid (See Figure A-2). The total cost of all programs and services was \$8,462,447 for the year ended June 30, 2025 (See Table A-2). The District's expenses cover a range of services, encompassing instruction, support services, co-curricular and food services. (See Figure A-3).



**HILL CITY SCHOOL DISTRICT NO. 51-2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2025**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

Changes in Net Position

Table A-2 and the narrative that follows consider the operations of the governmental and business-type activities.

	<b>Table A-2</b>					
	<b>Total Governmental Activities</b>		<b>Total Business-Type Activities</b>		<b>Total</b>	
	2024	2025	2024	2025	2024	2025
<b>Revenues</b>						
<i>Program Revenues</i>						
Charges for Services	\$ 15,657	\$ 27,995	\$ 101,884	\$ 89,955	\$ 117,541	\$ 117,950
Operating Grants and Contributions	753,138	908,790	108,651	119,604	861,789	1,028,394
<i>General Revenues</i>						
Taxes	7,934,025	7,699,045	-	-	7,934,025	7,699,045
Revenue State Sources	143,367	141,830	-	-	143,367	141,830
Revenue Federal Sources	129,983	141,341	-	-	129,983	141,341
Revenue Intermediate Sources	-	-	-	-	-	-
Other General Revenues	887,605	622,347	413	(126)	888,018	622,221
Unrestricted Investment Earnings	165,548	210,286	-	-	165,548	210,286
<b>Total Revenues</b>	<b>10,029,323</b>	<b>9,751,634</b>	<b>210,948</b>	<b>209,433</b>	<b>10,240,271</b>	<b>9,961,067</b>
<b>Expenses</b>						
Instruction	4,093,686	4,517,742	-	-	4,093,686	4,517,742
Support Services	2,956,997	3,304,096	-	-	2,956,997	3,304,096
Community Services	-	-	-	-	-	-
Co-Curricular Activities	332,099	467,386	-	-	332,099	467,386
Interest on Long-Term Debt	5,231	-	-	-	5,231	-
Food Service	-	-	197,850	241,589	197,850	241,589
Fitness Center	-	-	4,181	4,561	4,181	4,561
<b>Total Expenses</b>	<b>7,388,013</b>	<b>8,289,224</b>	<b>202,031</b>	<b>246,150</b>	<b>7,590,044</b>	<b>8,535,374</b>
<b>Change in Net Position</b>	<b>2,641,310</b>	<b>1,462,410</b>	<b>8,917</b>	<b>(36,717)</b>	<b>2,650,227</b>	<b>1,425,693</b>
<b>Ending Net Position</b>	<b>\$ 20,466,216</b>	<b>\$ 21,928,626</b>	<b>\$ 200,200</b>	<b>\$ 163,483</b>	<b>\$ 20,666,416</b>	<b>\$ 22,092,109</b>

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2025**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

Governmental Activities

The District experienced normal individual revenue fluctuations during the 2025 year compared to 2024, however, federal funding remitted to the district increased approximately 19 percent. This increase was largely offset by a 30 percent year-over-year decrease in insurance proceeds provided for capital repairs and maintenance (see Other General Revenues in Table A-2). The increase in expenditures of approximately 11.5 percent was primarily due to an increase in capital projects and salary increases from the prior year.

Business-Type Activities

Revenues of the District’s business-type activities remained comparably stable, and expenses increased approximately 22 percent. The decrease in revenues was due to a spend down plan required by the State School Nutrition Program which required spending down cash balances in the Food Service Fund. Additionally, the District was subject to normal meal rate increases for meal purchases within the Food Service Fund.

**FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS**

The General Fund increased mainly due to tax revenue increases. The Capital Outlay Fund increased due to an insurance claim, tax revenue, and proceeds from the Rural Education Achievement Program (REAP) grant. The Special Education Fund increased due to tax revenue.

**BUDGETARY HIGHLIGHTS**

The General Fund revenue budget increased mainly due to tax and restricted grant revenue. The Special Education revenue budget increased due to tax revenue. The corresponding expenditure budgets increased due to staffing increases and increases in compensation. The Capital Outlay Fund revenue budget increased due to an increase in assessed tax revenue. The Capital Outlay expenditure budget increased due to the increase in the cost of summer projects.

**CAPITAL ASSET ADMINISTRATION**

By the end of 2025, the District had invested \$9,772,526 (net of accumulated depreciation) in a broad range of capital assets, including land, buildings, various machinery and equipment, improvements, and ongoing construction projects. (See Table A-3). During the year, the District purchased the Ranger Square property as part of its facilities expansion plan. Overall, capital assets maintained by the District increased approximately \$696,000 from last year because of the land purchase, capital repair projects, and various other improvement and equipment purchases.

<b>Table A-3 Capital Assets (Net of Depreciation)</b>				
	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	2024	2025	2024	2025
Land	\$ 388,891	\$ 1,388,891	\$ -	\$ -
Construction in Progress	-	128,118	-	-
Buildings	7,904,782	7,307,886	-	-
Improvements	382,581	399,369	-	-
Machinery and Equipment	398,580	546,224	2,039	2,038
<b>Total Capital Assets (Net)</b>	<b>\$ 9,074,834</b>	<b>\$ 9,770,488</b>	<b>\$ 2,039</b>	<b>\$ 2,038</b>

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2025**

**LONG-TERM DEBT**

<b>Table A-4 Outstanding Debt and Obligations</b>				
	2024	2025	Total Dollar Change	Total Percentage Change
Compensated Absences	30,672	131,097	100,425	327%
<b>Total Outstanding Debt and Obligations</b>	<b>\$ 30,672</b>	<b>\$ 131,097</b>	<b>\$ 100,425</b>	<b>327%</b>

At year end, the District held no outstanding debt and had \$131,097 in compensated absences. This is an increase of \$100,425 as shown on Table A-4 above.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

The District’s current economic position has shown few changes. Local revenues have increased slightly due to appreciation of property values. No significant increases in revenues are expected.

The District did not receive a significant amount of State Aid for the fiscal year 2025. The District relies on property taxes and national forest receipts to fund the budget. The District has continued to cut costs wherever possible to help maintain expenditures and increase the fund balance for the General Fund.

**CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have questions about this report or need additional information, contact the Hill City School District’s Business Office, 488 Main St., Hill City, SD 57745.

HILL CITY SCHOOL DISTRICT NO. 51-2

STATEMENT OF NET POSITION  
JUNE 30, 2025

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
Cash and Investments	\$ 12,027,075	\$ 183,445	\$ 12,210,520
Taxes Receivable	3,581,315	-	3,581,315
Due from Other Governments	129,995	-	129,995
Inventory	-	1,206	1,206
Net Pension Asset	4,831	-	4,831
Other Asset	2,000	-	2,000
Capital Assets:			
Land	1,388,891	-	1,388,891
Construction in Progress	128,118	-	128,118
Buildings, Net of Depreciation	7,307,886	-	7,307,886
Equipment, Net of Depreciation	546,224	2,038	548,262
Improvements, Net of Depreciation	399,369	-	399,369
<b>TOTAL ASSETS</b>	<b>25,515,704</b>	<b>186,689</b>	<b>25,702,393</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Related Deferred Outflows	923,701	-	923,701
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 26,439,405</b>	<b>\$ 186,689</b>	<b>\$ 26,626,094</b>
<b>LIABILITIES</b>			
Accounts Payable	\$ 134,225	\$ -	\$ 134,225
Other Current Liabilities	574,402	28	574,430
Unearned Revenue	-	23,178	23,178
Long-Term Liabilities:			
Due Within One Year	131,097	-	131,097
<b>TOTAL LIABILITIES</b>	<b>839,724</b>	<b>23,206</b>	<b>862,930</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Taxes Levied for Future Period	3,063,959	-	3,063,959
Pension Related Deferred Inflow of Resources	607,096	-	607,096
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>3,671,055</b>	<b>-</b>	<b>3,671,055</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	9,770,488	2,038	9,772,526
Restricted for:			
Capital Outlay	4,460,329	-	4,460,329
Special Education	2,473,553	-	2,473,553
Pension - SDRS	321,436	-	321,436
Unrestricted	4,902,820	161,445	5,064,265
<b>TOTAL NET POSITION</b>	<b>21,928,626</b>	<b>163,483</b>	<b>22,092,109</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 26,439,405</b>	<b>\$ 186,689</b>	<b>\$ 26,626,094</b>

The accompanying notes are an integral part of this statement.

HILL CITY SCHOOL DISTRICT NO. 51-2

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2025

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
<i>Governmental Activities:</i>						
Instruction	\$ 4,517,742	\$ -	\$ 908,790	\$ (3,608,952)	\$ -	\$ (3,608,952)
Support Services	3,304,096	-	-	(3,304,096)	-	(3,304,096)
Co-Curricular Activities	467,386	27,995	-	(439,391)	-	(439,391)
	8,289,224	27,995	908,790	(7,352,439)	-	(7,352,439)
<i>Business-Type Activities:</i>						
Food Service	241,589	69,480	119,604	-	(52,505)	(52,505)
Fitness Center	4,561	20,475	-	-	15,914	15,914
	246,150	89,955	119,604	-	(36,591)	(36,591)
<b>Total Primary Government</b>	<b>\$ 8,535,374</b>	<b>\$ 117,950</b>	<b>\$ 1,028,394</b>	<b>(7,352,439)</b>	<b>(36,591)</b>	<b>(7,389,030)</b>
<b>General Revenues</b>						
Taxes:						
Property Taxes				7,621,571	-	7,621,571
Gross Receipts Taxes				77,474	-	77,474
Revenue from State Sources:						
State Apportionment and Bank Franchise Tax				141,830	-	141,830
Revenue from Federal Sources				141,341	-	141,341
Unrestricted Investment Earnings				210,286	-	210,286
Other General Revenues (Expenses)				622,347	(126)	622,221
<b>Total General Revenues</b>				<b>8,814,849</b>	<b>(126)</b>	<b>8,814,723</b>
<b>Change in Net Position</b>				<b>1,462,410</b>	<b>(36,717)</b>	<b>1,425,693</b>
<b>Net Position -- June 30, 2024</b>				<b>20,466,216</b>	<b>200,200</b>	<b>20,666,416</b>
<b>Net Position -- June 30, 2025</b>				<b>\$ 21,928,626</b>	<b>\$ 163,483</b>	<b>\$ 22,092,109</b>

The accompanying notes are an integral part of this statement.

HILL CITY SCHOOL DISTRICT NO. 51-2

GOVERNMENTAL FUNDS BALANCE SHEET  
JUNE 30, 2025

	General Fund	Capital Outlay Fund	Special Education Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and Investments	\$ 5,102,346	\$ 4,437,825	\$ 2,486,904	\$ 12,027,075
Taxes Receivable -- Current	1,870,973	869,655	464,072	3,204,700
Taxes Receivable -- Delinquent	225,799	95,726	55,090	376,615
Due from Other Governments	125,652	-	4,343	129,995
Other Assets	2,000	-	-	2,000
<b>Total Assets</b>	<b>\$ 7,326,770</b>	<b>\$ 5,403,206</b>	<b>\$ 3,010,409</b>	<b>\$ 15,740,385</b>
<b>LIABILITIES</b>				
Accounts Payable	\$ 15,007	\$ 106,957	\$ 12,261	\$ 134,225
Contracts Payable	363,833	-	45,658	409,491
Accrued Expenses	131,922	-	32,989	164,911
<b>Total Liabilities</b>	<b>510,762</b>	<b>106,957</b>	<b>90,908</b>	<b>708,627</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Taxes Levied for Future Period	1,782,091	835,920	445,948	3,063,959
Unavailable Revenue - Property Taxes	225,799	95,726	55,090	376,615
<b>Total Deferred Inflows of Resources</b>	<b>2,007,890</b>	<b>931,646</b>	<b>501,038</b>	<b>3,440,574</b>
<b>FUND BALANCES</b>				
Restricted - Capital Outlay	-	4,364,603	-	4,364,603
Restricted - Special Education	-	-	2,418,463	2,418,463
Assigned - Unemployment Claims	4,000	-	-	4,000
Unassigned	4,804,118	-	-	4,804,118
<b>Total Fund Balances</b>	<b>4,808,118</b>	<b>4,364,603</b>	<b>2,418,463</b>	<b>11,591,184</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 7,326,770</b>	<b>\$ 5,403,206</b>	<b>\$ 3,010,409</b>	<b>\$ 15,740,385</b>

The accompanying notes are an integral part of this statement.

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO GOVERNMENT-WIDE  
STATEMENT OF NET POSITION  
JUNE 30, 2025**

Total Fund Balances - Governmental Funds	\$ 11,591,184
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.	9,770,488
Long-term liabilities, including compensated absences, are not due in the current period and therefore not reported in the funds.	(131,097)
Assets such as delinquent taxes receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	376,615
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	4,831
Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.	923,701
Pension related deferred inflows are components of pension asset and therefore are not reported in the funds.	(607,096)
<b>Net Position - Governmental Funds</b>	<b>\$ 21,928,626</b>

The accompanying notes are an integral part of this statement.

HILL CITY SCHOOL DISTRICT NO. 51-2

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2025

	General Fund	Capital Outlay Fund	Special Education Fund	Total Governmental Funds
<b>REVENUES</b>				
<i>Revenue from Local Sources:</i>				
Ad Valorem Taxes	\$ 4,214,029	\$ 2,065,105	\$ 1,228,011	\$ 7,507,145
Prior Years' Ad Valorem Taxes	101,978	50,367	28,116	180,461
Gross Receipts Taxes	77,474	-	-	77,474
Penalties and Interest on Taxes	22,237	10,395	6,186	38,818
Interest Earned	161,694	24,296	24,296	210,286
<i>Co-Curricular Activities:</i>				
Admissions	27,995	-	-	27,995
<i>Other Local Revenue:</i>				
Rentals	3,246	-	-	3,246
Other	26,533	-	-	26,533
<i>Revenue from Intermediate Sources:</i>				
County Apportionment	23,194	-	-	23,194
<i>Revenue from State Sources -- Grants-in-Aid:</i>				
Unrestricted Grants-in-Aid	141,830	-	-	141,830
<i>Revenue from Federal Sources -- Grants-in-Aid:</i>				
Unrestricted Grants-in-Aid Received from				
Federal Government Through State	141,341	-	-	141,341
Restricted Grants-in-Aid Received from				
Federal Government Through State	669,984	87,289	151,517	908,790
<b>Total Revenues</b>	<b>5,611,535</b>	<b>2,237,452</b>	<b>1,438,126</b>	<b>9,287,113</b>

**EXPENDITURES**

*Instruction Regular Programs:*

Elementary	1,032,432	113,314	-	1,145,746
Middle/Junior High School	470,608	58,466	-	529,074
High School	918,314	74,125	-	992,439

*Instruction Special Programs:*

Programs for Special Education	-	-	858,688	858,688
Educationally Deprived	220,377	-	-	220,377

*Support Services Pupils:*

Health Services	168,937	-	-	168,937
Psychological	-	-	48,743	48,743
Speech Pathology	-	-	103,004	103,004
Student Therapy Services	-	-	79,350	79,350
Improvement of Instruction	28,195	-	-	28,195
Educational Media	136,301	44,104	-	180,405

*Support Services General Administration:*

Board of Education	60,817	-	-	60,817
Executive Administration	166,828	-	-	166,828
Office of the Principal	232,363	-	-	232,363

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2025**

	General Fund	Capital Outlay Fund	Special Education Fund	Total Governmental Funds
<b>EXPENDITURES (Continued)</b>				
<i>Support Services Business:</i>				
Fiscal Services	214,705	-	-	214,705
Facilities Acquisition and Construction	-	763,881	-	763,881
Operation and Maintenance of Plant	848,671	-	-	848,671
Pupil Transportation	201,400	-	-	201,400
<i>Support Services Special Education:</i>				
Administrative Costs	-	-	84,369	84,369
<i>Co-Curricular Activities:</i>				
Male Activities	61,525	-	-	61,525
Female Activities	108,423	-	-	108,423
Combined Activities	169,993	12,619	-	182,612
Capital Outlay	-	1,185,079	-	1,185,079
<b>Total Expenditures</b>	<b>5,039,889</b>	<b>2,251,588</b>	<b>1,174,154</b>	<b>8,465,631</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>571,646</b>	<b>(14,136)</b>	<b>263,972</b>	<b>821,482</b>
<b>Other Financing Sources</b>				
Compensation for Loss of Property	-	274,086	-	274,086
<b>Total Other Financing Sources</b>	<b>-</b>	<b>274,086</b>	<b>-</b>	<b>274,086</b>
<b>Net Change in Fund Balances</b>	<b>571,646</b>	<b>259,950</b>	<b>263,972</b>	<b>1,095,568</b>
Fund Balance -- June 30, 2024	4,236,472	4,104,653	2,154,491	10,495,616
<b>Fund Balance -- June 30, 2025</b>	<b>\$ 4,808,118</b>	<b>\$ 4,364,603</b>	<b>\$ 2,418,463</b>	<b>\$ 11,591,184</b>

The accompanying notes are an integral part of this statement.

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2025**

Net Change in Fund Balances - Total Governmental Funds \$ 1,095,568

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.

Capital Asset Purchases Capitalized	1,185,079
Depreciation Expense	(784,713)
	<hr/> 400,366 <hr/>

In the Statement of Activities, gains and losses on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized. 295,288

In both the government-wide and fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property 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. (104,853)

Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the fiscal 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 leave credits. (100,425)

Changes in the pension related deferred outflows/inflows, pension asset and related pension expenses are not reported in the governmental fund statements. (123,534)

**Change in Net Position of Governmental Activities** **\$ 1,462,410**

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The accompanying notes are an integral part of this statement.

HILL CITY SCHOOL DISTRICT NO. 51-2

PROPRIETARY FUNDS BALANCE SHEET  
JUNE 30, 2025

	<b>Food Service Fund</b>	<b>Fitness Center Fund</b>	<b>Total Proprietary Funds</b>
<b>ASSETS</b>			
Current Assets:			
Cash	\$ 114,434	\$ 69,011	\$ 183,445
Inventory	1,206	-	1,206
<b>Total Current Assets</b>	<b>115,640</b>	<b>69,011</b>	<b>184,651</b>
Capital Assets:			
Machinery and Equipment	6,116	-	6,116
Less Accumulated Depreciation	(4,078)	-	(4,078)
<b>Total Noncurrent Assets</b>	<b>2,038</b>	<b>-</b>	<b>2,038</b>
<b>TOTAL ASSETS</b>	<b>\$ 117,678</b>	<b>\$ 69,011</b>	<b>\$ 186,689</b>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	\$ 28	\$ -	\$ 28
Unearned Revenue	23,178	-	23,178
<b>Total Liabilities</b>	<b>23,206</b>	<b>-</b>	<b>23,206</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	2,038	-	2,038
Unrestricted Net Position	92,434	69,011	161,445
<b>Total Net Position</b>	<b>94,472</b>	<b>69,011</b>	<b>163,483</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 117,678</b>	<b>\$ 69,011</b>	<b>\$ 186,689</b>

The accompanying notes are an integral part of this statement.

HILL CITY SCHOOL DISTRICT NO. 51-2

**PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND  
NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2025**

	<b>Food Service Fund</b>	<b>Fitness Center Fund</b>	<b>Total Proprietary Funds</b>
<b>Operating Revenue</b>			
<i>Sales:</i>			
To Pupils	\$ 65,807	\$ -	\$ 65,807
To Adults	3,673	-	3,673
Other	-	20,475	20,475
<b>Total Operating Revenue</b>	<b>69,480</b>	<b>20,475</b>	<b>89,955</b>
<b>Operating Expenses</b>			
Salaries	-	2,620	2,620
Employee Benefits	-	358	358
Purchased Services	212,190	-	212,190
Supplies	28,889	1,583	30,472
Depreciation	510	-	510
<b>Total Operating Expenses</b>	<b>241,589</b>	<b>4,561</b>	<b>246,150</b>
<b>Operating Income (Loss)</b>	<b>(172,109)</b>	<b>15,914</b>	<b>(156,195)</b>
<b>Nonoperating Revenue (Expense)</b>			
<i>Federal Sources:</i>			
Unrestricted Grants-in-Aid Received from Federal			
Government Through State	100,523	-	100,523
Cash Reimbursements	14,914	-	14,914
Donated Food	4,167	-	4,167
Other Expense	(126)	-	(126)
<b>Total Nonoperating Revenue</b>	<b>119,478</b>	<b>-</b>	<b>119,478</b>
<b>Change in Net Position</b>	<b>(52,631)</b>	<b>15,914</b>	<b>(36,717)</b>
Net Position -- June 30, 2024	147,103	53,097	200,200
<b>Net Position -- June 30, 2025</b>	<b>\$ 94,472</b>	<b>\$ 69,011</b>	<b>\$ 163,483</b>

The accompanying notes are an integral part of this statement.

HILL CITY SCHOOL DISTRICT NO. 51-2

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2025

	<b>Food Service Fund</b>	<b>Fitness Center Fund</b>	<b>Total Proprietary Funds</b>
<b>Cash Flows from Operating Activities:</b>			
Receipts from Customers	\$ 69,480	\$ 20,475	\$ 89,955
Payments to Suppliers	(241,051)	(1,583)	(242,634)
Payments to Employees	-	(2,978)	(2,978)
Other Disbursements	19,893	-	19,893
<b>Net Cash Flows Provided by (Used in) Operating Activities</b>	<b>(151,678)</b>	<b>15,914</b>	<b>(135,764)</b>
<b>Cash Flows Provided by Noncapital Financing Activities:</b>			
Operating Subsidies	118,969	-	118,969
<b>Net Increase (Decrease) in Cash During the Fiscal Year</b>	<b>(32,709)</b>	<b>15,914</b>	<b>(16,795)</b>
Cash -- June 30, 2024	147,143	53,097	200,240
<b>Cash -- June 30, 2025</b>	<b>\$ 114,434</b>	<b>\$ 69,011</b>	<b>\$ 183,445</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Flows Provided by (Used in) Operating Activities</b>			
Operating Income (Loss)	\$ (172,109)	\$ 15,914	\$ (156,195)
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</i>			
Depreciation Expense	510	-	510
<i>Changes in Assets and Liabilities:</i>			
Accounts Receivable	7,007	-	7,007
Inventory	9,240	-	9,240
Accounts Payable	28	-	28
Unearned Revenue	3,646	-	3,646
<b>Net Cash Flows Provided by (Used in) Operating Activities</b>	<b>\$ (151,678)</b>	<b>\$ 15,914</b>	<b>\$ (135,764)</b>
<b>Noncash Investing, Capital and Financing Activities:</b>			
Value of Commodities Received	\$ 4,167	\$ -	\$ 4,167

The accompanying notes are an integral part of this statement.

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2025**

	<b>Private-Purpose Trust Fund</b>	<b>Custodial Funds</b>
<b>ASSETS</b>		
Cash	\$ 6,330	\$ 108,568
<hr/> <hr/>		
<b>NET POSITION</b>		
Restricted:		
Scholarships	\$ 6,330	\$ -
Individuals, Organizations, and Other Governments	-	108,568
<hr/> <hr/>		

The accompanying notes are an integral part of this statement.

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2025**

	<b>Private-Purpose Trust Funds</b>	<b>Custodial Funds</b>
<b>ADDITIONS</b>		
Local Contributions	\$ 1,250	\$ -
Contributions to Organizations	-	179,934
Interest Earnings	355	113
<b>Total Additions</b>	<b>1,605</b>	<b>180,047</b>
<b>DEDUCTIONS</b>		
Payments to Individuals and Organizations	-	175,369
Scholarships Awarded	1,750	-
<b>Total Deductions</b>	<b>1,750</b>	<b>175,369</b>
<b>Change in Net Position</b>	<b>(145)</b>	<b>4,678</b>
Net Position - June 30, 2024	6,475	103,890
<b>Net Position - June 30, 2025</b>	<b>\$ 6,330</b>	<b>\$ 108,568</b>

The accompanying notes are an integral part of this statement.

## HILL CITY SCHOOL DISTRICT NO. 51-2

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2025

#### **(1) Summary of Significant Accounting Policies**

##### **Reporting Entity**

The reporting entity of Hill City School District No. 51-2 (the 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.

The funds included in this report are controlled by or dependent upon the District's Board of Education. The District participates in a cooperative service unit with several other school districts. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit but are disclosed in these notes because of the nature of their relationship with the District. See Note 6 entitled "Joint Venture" for specific disclosures. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments.

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

The preparation of the financial statements in accordance with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of certain financial statement balances. Actual results could vary from the estimates used.

##### **Basis of Presentation**

###### *Government-wide Statements:*

The Statement of Net Position and the Statement of Activities display information about the primary government of the District. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Net Position reports all financial and capital resources, in a balance sheet form (assets equal liabilities plus 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 District and for each function of the 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 are presented as general revenues.

###### *Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories.

## HILL CITY SCHOOL DISTRICT NO. 51-2

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2025

#### (1) Summary of Significant Accounting Policies

##### Basis of Presentation

###### *Fund Financial Statements:*

A fund is considered major if it is the primary operating fund of the District or if it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures of the individual governmental or enterprise fund are at least 5 percent of the corresponding total of 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.

The funds of the financial reporting entity are described below with their respective fund types:

###### Governmental Funds:

**General Fund** - The General Fund is established by South Dakota Codified Laws (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 Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes. The Capital Outlay and Special Education Funds are the special revenue funds maintained by the District.

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

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

###### Proprietary Funds:

**Enterprise Funds** - Enterprise Funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

**Food Service Fund** - A fund established to record the financial transactions related to the K-12 food services operation. This fund is financed by user charges and grants. This is a major fund.

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2025**

**(1) Summary of Significant Accounting Policies**

**Basis of Presentation**

*Fund Financial Statements:*

Proprietary Funds:

Fitness Center Fund - A fund established to record the financial transactions related to the fitness center. This fund is financed by user charges. This is a major fund.

Fiduciary Funds:

Fiduciary Funds are never considered to be major funds.

Private-Purpose Trust Funds - Private-Purpose Trust Funds are used to account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The District maintains one private-purpose trust fund, which is a scholarship fund established by a donation made to the District for payment of scholarships to District students.

Custodial Funds - Custodial Funds are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. The District maintains custodial funds to hold assets as an agent in a trustee capacity for various classes and clubs.

**Measurement Focus and Basis of Accounting**

Measurement focus is a term 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 funds, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

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).

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2025**

**(1) Summary of Significant Accounting Policies**

**Measurement Focus and Basis of Accounting**

Basis of Accounting:

*Fund Financial Statements:*

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the District, the length of that cycle is 60 days.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Unavailable revenues – where asset recognition criteria have been met, but for which revenue recognition criteria have not been met – are reported as a deferred inflow of resources.

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.

**Inventory**

Inventory is valued at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

Inventory in the enterprise fund consists of food and supplies held for consumption. Inventory is recorded at the time individual inventory items are purchased and expensed when consumed.

There are no significant amounts of governmental supplies inventory maintained by the District.

**Capital Assets**

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

The accounting treatment of 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 Financial Statements:*

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

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. The depreciation method used for buildings and machinery and equipment is straight-line. Land and construction in process are not depreciated.

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2025**

**(1) Summary of Significant Accounting Policies**

**Capital Assets**

The capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Estimated Useful Life
Land	All	-
Buildings	\$ 50,000	50 years
Improvements	\$ 25,000	10-20 years
Equipment	\$ 5,000	5-30 years

*Fund Financial Statements:*

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

**Long-Term Liabilities**

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

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term liabilities consist exclusively of compensated absences.

Funding for compensated absences are expended in the general fund and special education fund.

**Program Revenues**

In the government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the 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 used in a particular program.

**Deferred Inflows and Outflows of Resources**

In addition to assets, the Statement of Net Position may report a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period. Deferred outflows of resources consist of pension activity.

## HILL CITY SCHOOL DISTRICT NO. 51-2

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2025

#### (1) Summary of Significant Accounting Policies

##### Deferred Inflows and Outflows of Resources

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period. Deferred inflows of resources consist of property taxes and pension activity.

##### Pension

For purposes of measuring the net pension asset, deferred outflows (inflows) of resources related to pensions, and pension revenue, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. District contributions and net pension asset are recognized on an accrual basis of accounting.

##### Proprietary Funds Revenue and Expense Classifications

In the Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position, 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, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

##### Deposits and Investments

The 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 below:

Deposits – The 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 percent of the public deposit accounts that 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 better, or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

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 including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) above; or 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 deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent. State law limits eligible investments for the District. The District has no investment policy that would further limit its investment choices or limit maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2025**

**(1) Summary of Significant Accounting Policies**

**Deposits and Investments**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of June 30, 2025, the District’s cash and investments consisted only of checking, savings, nonnegotiable certificates of deposit, and money market. The bank balances at June 30, 2025 are as follows, described below:

	<u>Bank Balance</u>
Insured - FDIC/NCUA	\$ 500,000
Uninsured, collateralized in accordance with SDCL 4-6A-3	11,888,660
<u>Total Deposits</u>	<u>\$ 12,388,660</u>

*Assignment of Investment Income:*

State law allows income from deposits to be credited to either the General Fund or the fund making the investment. The District’s policy is to credit all income from deposits to the fund making the investment.

*Interest Rate Risk:*

The 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 District as discussed above. The District has no investment policy that would further limit its investment choices.

*Custodial Credit Risk:*

The risk that, in the event of a depository failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2025, none of the District’s deposits were exposed to custodial credit risk.

*Concentration Risk:*

The District places no limit on the amount that may be invested in any one issuer.

**Cash and Cash Equivalents**

The District pools its cash resources for depositing and investing purposes. The District has access to its cash resources on demand. Accordingly, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2025**

**(1) Summary of Significant Accounting Policies**

**Equity Classifications**

*Government-wide Statements:*

Equity is classified as net position and is displayed in three components:

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

It is the 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 Financial Statements:*

Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity is reported as net position held in trust for other purposes, and restricted for individuals, organizations, and other governments.

Governmental fund equity is classified 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. There were no commitments at June 30, 2025.

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, Superintendent, 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.

## HILL CITY SCHOOL DISTRICT NO. 51-2

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2025

#### (1) Summary of Significant Accounting Policies

##### Equity Classifications

The District uses restricted/committed 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 District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. The District does not have a formal minimum fund balance policy.

##### Adopted Accounting Standards

As of July 1, 2024, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. This statement updates the recognition and measurement guidance for compensated absences. Leave that has not been used, is attributable to services already rendered, accumulates, and is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means should generally be recognized at the employee's pay rate as of the financial statement date. The standard also includes guidance for types of leave other than vacation, requires accrual of salary related payments, and changes the disclosure requirements. The implementation of this standard did not have a significant impact on the District's financial statements.

As of July 1, 2024, the School adopted GASB Statement No. 102, *Certain Risk Disclosures*, which expands the disclosure requirements for risks related to a government's vulnerabilities due to certain concentrations or constraints. The disclosure criteria should be assessed for the primary government reporting unit and all other reporting units that report a liability for revenue debt. A disclosure shall be made in the notes to the financial statements if all of the following criteria are met: a concentration or constraint is known, the concentration or constraint makes the reporting unit vulnerable to the risk of a substantial impact, and an event related to the concentration or constraint that could have a substantial impact has occurred or is expected to occur within twelve months of the date the financial statements are issued. The implementation of this standard did not have a material impact on the District's year ending June 30, 2025.

##### Emerging Accounting Standards

In April 2024, the Governmental Accounting Standards Board (GASB) issued Statement No. 103, *Financial Reporting Model Improvements*, which improves key components of the financial reporting model to enhance its effectiveness in providing information to the users of the financial statements. The statement redefines the information to be included in management's discussion and analysis, clarifies operating vs. nonoperating revenues and expenses in the proprietary fund statement of revenues, expenses and changes in fund net position, provides guidance on the presentation of unusual or infrequent items, updates the requirements of presentation of major component unit information, and changes the presentation of the budgetary comparison schedules. The statement is effective for the District's year ending June 30, 2026.

In September 2024, the Governmental Accounting Standards Board (GASB) issued Statement No. 104, *Disclosure of Certain Capital Assets*, which requires certain information regarding capital assets to be presented by major class. This includes lease assets, intangible right-to-use assets under public-private and public-public partnerships, subscription assets, and certain other intangible assets. In addition, new disclosures surrounding capital assets held for sale are required. The statement is effective for the District's year ending June 30, 2026.

The District is currently evaluating the impact these statements will have on the financial statements.

##### Subsequent Events

Subsequent events were evaluated through March 9, 2026, the date on which the financial statements were available to be issued.

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2025**

**(2) Property Taxes**

Property taxes are levied on or before each October 1, attached as an enforceable lien on property, become due and payable 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 District’s taxes and remits them to the District.

District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Current year property taxes receivable, which are not available as a resource that can be used to finance the current year's appropriations and therefore are not susceptible to accrual, have been deferred and are not reported as revenue in the fund or 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.”

**(3) Due from Other Governments**

Amounts due from other governments include grant reimbursements and gross receipts due from the State of South Dakota in the amount of \$107,443 and gross receipts due from Pennington County totaling \$22,552.

**(4) Changes in Capital Assets**

Changes in capital assets used in governmental activities were as follows during the year ended June 30, 2025:

	Balance June 30, 2024	Additions	Transfers/ Retirements	Balance June 30, 2025
<b>Governmental Activities</b>				
<i>Capital Assets, not Depreciated</i>				
Land	\$ 388,891	\$ 1,000,000	\$ -	\$ 1,388,891
Construction in Process	-	128,118	-	128,118
<i>Capital Assets, Depreciated</i>				
Buildings	13,750,109	-	-	13,750,109
Equipment	1,933,158	-	(714,663)	1,218,495
Improvements	1,047,501	56,961	-	1,104,462
	<u>17,119,659</u>	<u>1,185,079</u>	<u>(714,663)</u>	<u>17,590,075</u>
<i>Less Accumulated Depreciation and Amortization</i>				
Buildings	5,845,327	596,896	-	6,442,223
Equipment	1,534,578	147,644	(1,009,951)	672,271
Improvements	664,920	40,173	-	705,093
	<u>8,044,825</u>	<u>784,713</u>	<u>(1,009,951)</u>	<u>7,819,587</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 9,074,834</u>	<u>\$ 400,366</u>	<u>\$ 295,288</u>	<u>\$ 9,770,488</u>

Depreciation and amortization expense was charged to functions within governmental activities as follows during the year then ended:

Instruction	\$ 585,318
Support Services	88,201
Co-Curricular Activities	111,194
<b>Total Depreciation Expense</b>	<u>\$ 784,713</u>

At June 30, 2025, the District had construction commitments for the boiler plant project totaling approximately \$817,000 financed through the Capital Outlay Fund.

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2025**

**(4) Changes in Capital Assets**

Changes in capital assets used in business-type activities were as follows during the year ended June 30, 2025:

	Balance June 30, 2024	Additions	Transfers/ Retirements	Balance June 30, 2025
<b>Business -Type Activities</b>				
Machinery and Equipment	\$ 141,452	\$ -	\$ (135,336)	\$ 6,116
Less Accumulated Depreciation	138,904	510	(135,336)	4,078
<b>Business -Type Activities Capital Assets, Net</b>	<b>\$ 2,548</b>	<b>\$ (510)</b>	<b>\$ -</b>	<b>\$ 2,038</b>

**(5) Long-Term Debt**

	Compensated Absences Payable
<b>Governmental Activities</b>	
June 30, 2024 Balance	\$ 30,672
Net Change	100,425
<b>June 30, 2025 Balance</b>	<b>\$ 131,097</b>
<b>Due Within One Year</b>	<b>\$ 131,097</b>

**(6) Joint Venture**

The District participates in the Black Hills Special Services Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special educational services to the member school districts. During the year ended June 30, 2025, the District paid \$9,914 for services provided by the co-op.

The members of the co-op and their relative percentage participation in the co-op are as follows:

Spearfish School District No. 40-2	8.33%
Lead-Deadwood School District No. 40-1	8.33%
Oelrichs School District No. 23-3	8.33%
Meade School District No. 46-1	8.33%
Rapid City Area School District No. 51-4	8.33%
Belle Fourche School District No. 9-1	8.33%
Custer School District No. 16-1	8.33%
Douglas School District No. 51-1	8.33%
Edgemont School District No. 23-1	8.33%
Haakon School District No. 27-1	8.33%
Hill City School District No. 51-2	8.33%
Hot Springs School District No. 23-2	8.33%

The co-op's governing board is composed of one representative from each member school district, who is a school board member. 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 District retains no equity in the net position of the co-op but does have a responsibility to fund deficits of the co-op in proportion to the relative participation described above.

## HILL CITY SCHOOL DISTRICT NO. 51-2

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2025

#### **(6) Joint Venture**

Separate financial statements for this joint venture are available from Black Hills Special Services Cooperative. At June 30, 2025, this joint venture had total fund equity of \$9,637,995 (unaudited) and long-term debt of \$444,125 (unaudited).

#### **(7) Pension Plan**

All employees working more than 20 hours per week during the school year participate in the South Dakota Retirement System (SDRS). SDRS is a hybrid defined benefit pension plan designed with several defined contribution plan type provisions and is administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions 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 by writing to SDRS, P.O. Box 1098, Pierre, South Dakota 57501-1098 or by calling (605) 773-3731.

#### *Benefits Provided*

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

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirements that do not meet the above criteria may be payable at a reduced level. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

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 Cost-of-Living Adjustment (COLA) process. At each valuation date:

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

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

All benefits except those depending on the Member's Accumulated Contributions are annually increased by COLA.

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2025**

**(7) Pension Plan**

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 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to contribute an amount equal to the employee’s contribution. The District’s share of contributions to the SDRS for the fiscal years ended June 30, 2025, 2024, and 2023 were \$214,767, \$199,037, and \$192,867, respectively, equal to the required contributions each year.

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

At June 30, 2024, SDRS is 100.00 percent funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension liability of South Dakota Retirement System, for the District as of June 30, 2025 are as follows:

	<u>Total</u>
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 17,807,836
Less: Proportionate Share of Total Pension Liability	(17,803,005)
<b>Proportionate Share of Net Pension Asset</b>	<b>\$ 4,831</b>

At June 30, 2025, the District reported an asset of \$4,831 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2024 and the total pension liability used to calculate the net pension asset was based on a projection of the District’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2024, the District’s proportion was approximately 0.119337 percent, which is a decrease of 0.005304 from its proportion measured at June 30, 2023.

For the year ended June 30, 2025, the District recognized pension expense of \$340,144. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between Expected and Actual Experience	\$ 447,329	\$ -
Changes in Assumption	79,645	607,096
Net Difference between Projected and Actual Earnings on Pension Plan Investments	181,961	-
District Contributions Subsequent to the Measurement Date	214,766	-
<b>Total</b>	<b>\$ 923,701</b>	<b>\$ 607,096</b>

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2025**

**(7) Pension Plan**

Deferred inflow of resources includes \$214,766 resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2026. 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:

2026	\$	(169,257)
2027		232,810
2028		23,752
2029		14,534
	\$	<u>101,839</u>

*Actuarial Assumptions*

The total pension asset in the June 30, 2024, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	Graded by years of service, from 7.66 percent at entry to 3.15 percent after 25 years of service
Discount Rate	6.50 percent, net of plan investment expense. This is composed of an average inflation rate of 2.50 percent and real returns of 4.00 percent
Future COLAs	1.71 percent

**Mortality Rates:**

All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020

**Active and Terminated Vested Members:**

- Teachers, Certified Regents, and Judicial: PubT-2010
- Other Class A Members: PubG-2010
- Public Safety Members: PubS-2010

**Retired Members:**

- Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65
- Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above
- Public Safety Retirees: PubS-2010, 102% of rates at all ages

**Beneficiaries:**

- PubG-2010 contingent survivor mortality table

**Disabled Members:**

- Public Safety: PubS-2010 disabled member mortality table
- Others: PubG-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2024, valuation were based on the results of an actuarial experience study for the period of July 1, 2016, to June 30, 2021.

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2025**

**(7) Pension Plan**

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, 2024 (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	56.3%	3.8%
Fixed Income	22.8%	2.3%
Debt	7.0%	2.8%
Real Estate	12.0%	4.0%
Cash	1.9%	0.8%
	100.0%	

*Discount Rate*

The discount rate used to measure the total pension asset was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that employee 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 Asset to Changes in the Discount Rate*

The following presents the District’s proportionate share of net pension (asset)/liability calculated using the discount rate of 6.50 percent, as well as what the District’s proportionate share of the net pension (asset)/liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.50 percent) or 1-percentage point higher (7.50 percent) than the current rate:

	Current Discount		
	1% Decrease	Rate	1% Increase
District’s Proportionate Share of the Net Pension (Asset)/Liability	\$ 2,454,717	\$ (4,831)	\$ (2,017,507)

*Pension Plan Fiduciary Net Position*

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

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2025**

**(8) Risk Management**

The 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 period ended June 30, 2025, the District managed its risks as follows:

*Property/Liability Insurance:*

The District purchased property/liability insurance for risks related to theft, litigation, damage to property, and errors and omissions of public officials from a commercial carrier. Settled claims for the year ended June 30, 2025, resulting from these risks did not exceed the coverage during the previous two fiscal years.

*Workmen's Compensation:*

The District purchases liability insurance for worker's compensation from a commercial carrier. The 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 over the past three years.

*Health Insurance:*

The District purchases health insurance through a commercial carrier.

The District does not carry additional health insurance coverage 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.

*Unemployment Benefits:*

The District has elected to be self-insured and retain all risk for liabilities resulting in claims for unemployment benefits. The District has assigned funds in the General Fund in the amount of \$4,000 for the payment of future unemployment benefits.

During the year ended June 30, 2025, no claims were filed for unemployment benefits. At June 30, 2025, no claims were outstanding. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

HILL CITY SCHOOL DISTRICT NO. 51-2

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (UNAUDITED)**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2025**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
<i>Revenue from Local Sources:</i>				
Taxes:				
Ad Valorem Taxes	\$ 4,000,000	\$ 4,000,000	\$ 4,214,029	\$ 214,029
Prior Years' Ad Valorem Taxes	10,000	10,000	101,978	91,978
Gross Receipts Taxes	75,000	75,000	77,474	2,474
Penalties and Interest on Taxes	8,000	8,000	22,237	14,237
Co in Lieu of Taxes	1,000	1,000	-	(1,000)
Earnings on Interest-Bearing Accounts:				
Interest Earned	-	-	25,076	25,076
Co-Curricular Activities:				
Admissions	10,000	10,000	27,995	17,995
Other Local Revenue:				
Rentals	2,000	2,000	3,246	1,246
Other	25,135	25,135	26,533	1,398
<i>Revenue from Intermediate Sources:</i>				
County Sources:				
County Apportionment	20,000	20,000	23,194	3,194
<i>Revenue from State Sources:</i>				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	80,000	80,000	141,830	61,830
<i>Revenue from Federal Sources:</i>				
Grants-in-Aid:				
Unrestricted Grants-in-Aid Received				
from Federal Government Through State	150,000	150,000	141,341	(8,659)
Restricted Grants-in-Aid Received from				
Federal Government Through State	261,055	261,055	228,954	(32,101)
<b>Total Revenues</b>	<b>4,642,190</b>	<b>4,642,190</b>	<b>5,033,887</b>	<b>391,697</b>

HILL CITY SCHOOL DISTRICT NO. 51-2

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (UNAUDITED)**

**GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2025**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
<b>EXPENDITURES</b>				
<i>Instruction:</i>				
Regular Programs:				
Elementary	1,068,118	1,068,118	1,032,432	35,686
Middle/Junior High School	589,484	560,943	470,608	90,335
High School	889,800	918,341	918,314	27
Educationally Deprived	205,736	220,736	220,377	359
<i>Support Services Pupils</i>				
Health Services	169,530	169,530	168,937	593
Improvement of Instruction	46,400	46,400	28,195	18,205
Educational Media	177,415	177,415	136,301	41,114
<i>Support Services General Administration</i>				
Board of Education	81,259	93,759	60,817	32,942
Executive Administration	172,280	172,280	166,828	5,452
School Administration:				
Office of the Principal	235,323	235,323	232,363	2,960
Fiscal Services	222,116	222,116	214,705	7,411
Operation and Maintenance of Plant	876,402	876,402	848,671	27,731
Pupil Transportation	323,870	323,870	201,400	122,470
<i>Co-Curricular Activities:</i>				
Male Activities	58,680	64,680	61,525	(2,845)
Female Activities	57,694	57,694	108,423	(50,729)
Combined Activities	229,164	235,164	169,993	59,171
<b>Total Expenditures</b>	<b>5,403,271</b>	<b>5,442,771</b>	<b>5,039,889</b>	<b>390,882</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(761,081)</b>	<b>(800,581)</b>	<b>(6,002)</b>	<b>782,579</b>
<b>Net Change in Fund Balance</b>	<b>(761,081)</b>	<b>(800,581)</b>	<b>(6,002)</b>	<b>794,579</b>
Fund Balance -- June 30, 2024	2,256,987	2,256,987	2,256,987	-
<b>Fund Balance -- June 30, 2025</b>	<b>\$ 1,495,906</b>	<b>\$ 1,456,406</b>	<b>\$ 2,250,985</b>	<b>\$ 794,579</b>

The accompanying notes to required supplementary information are an integral part of this statement.

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (UNAUDITED)  
CAPITAL OUTLAY FUND  
FOR THE YEAR ENDED JUNE 30, 2025**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
<i>Revenue from Local Sources:</i>				
Taxes:				
Ad Valorem Taxes	\$ 1,874,584	\$ 1,874,584	\$ 2,065,105	\$ 190,521
Prior Years' Ad Valorem Taxes	7,000	7,000	50,367	43,367
Penalties and Interest on Taxes	4,000	4,000	10,395	6,395
Earnings on Interest-Bearing Accounts:				
Interest Earned	-	-	24,296	24,296
Other Local Revenue:				
Other	500	500	-	(500)
<i>Revenue from Federal Sources:</i>				
Other Federal Revenue:				
Other	56,417	56,417	87,289	30,872
<b>Total Revenues</b>	<b>1,942,501</b>	<b>1,942,501</b>	<b>2,237,452</b>	<b>294,951</b>
<b>EXPENDITURES</b>				
<i>Instruction:</i>				
Regular Programs:				
Elementary	97,000	97,000	113,314	(16,314)
Middle/Junior High School	110,000	110,000	58,466	51,534
High School	125,000	125,000	74,125	50,875
Special Programs:				
Programs for Special Education	4,000	4,000	-	4,000
<i>Support Services:</i>				
Instructional Staff:				
Educational Media	136,417	136,417	44,104	92,313
Business:				
Facilities Acquisition and Construction	2,721,042	2,112,875	1,948,960	163,915
<i>Co-Curricular Activities:</i>				
Combined Activities	35,000	35,000	12,619	22,381
<b>Total Expenditures</b>	<b>3,228,459</b>	<b>2,620,292</b>	<b>2,251,588</b>	<b>368,704</b>
<b>Excess of Revenue Over Expenditures</b>	<b>(1,285,958)</b>	<b>(677,791)</b>	<b>(14,136)</b>	<b>663,655</b>
<b>Other Financing Uses</b>				
Compensation for Loss of Property	-	-	274,086	274,086
<b>Total Other Financing Uses</b>	<b>-</b>	<b>-</b>	<b>274,086</b>	<b>274,086</b>
<b>Net Change in Fund Balance</b>	<b>(1,285,958)</b>	<b>(677,791)</b>	<b>259,950</b>	<b>937,741</b>
Fund Balance -- June 30, 2024	4,104,653	4,104,653	4,104,653	-
<b>Fund Balance -- June 30, 2025</b>	<b>\$ 2,818,695</b>	<b>\$ 3,426,862</b>	<b>\$ 4,364,603</b>	<b>\$ 937,741</b>

The accompanying notes to required supplementary information are an integral part of this statement.

HILL CITY SCHOOL DISTRICT NO. 51-2

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (UNAUDITED)**  
**SPECIAL EDUCATION FUND**  
**FOR THE YEAR ENDED JUNE 30, 2025**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
<i>Revenue from Local Sources:</i>				
Taxes:				
Ad Valorem Taxes	\$ 1,000,400	\$ 1,000,400	\$ 1,228,011	\$ 227,611
Prior Years' Ad Valorem Taxes	4,000	4,000	28,116	24,116
Penalties and Interest on Taxes	2,000	2,000	6,186	4,186
Earnings on Interest-Bearing Accounts:				
Interest Earned	-	-	24,296	24,296
<i>Revenue from Federal Sources:</i>				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through State	135,713	135,713	151,517	15,804
<b>Total Revenues</b>	<b>1,142,113</b>	<b>1,142,113</b>	<b>1,438,126</b>	<b>296,013</b>
<b>EXPENDITURES</b>				
<i>Instruction:</i>				
Special Programs:				
Programs for Special Education	905,234	905,234	858,688	46,546
<i>Support Services:</i>				
Pupils:				
Psychological	101,000	101,000	48,743	52,257
Speech Pathology	100,000	100,000	103,004	(3,004)
Student Therapy Services	120,500	120,500	79,350	41,150
Special Education:				
Administrative Costs	100,075	100,075	84,369	15,706
<b>Total Expenditures</b>	<b>1,326,809</b>	<b>1,326,809</b>	<b>1,174,154</b>	<b>152,655</b>
<b>Net Change in Fund Balance</b>	<b>(184,696)</b>	<b>(184,696)</b>	<b>263,972</b>	<b>448,668</b>
Fund Balance -- June 30, 2024	2,154,491	2,154,491	2,154,491	-
<b>Fund Balance -- June 30, 2025</b>	<b>\$ 1,969,795</b>	<b>\$ 1,969,795</b>	<b>\$ 2,418,463</b>	<b>\$ 448,668</b>

The accompanying notes to required supplementary information are an integral part of this statement.

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**SCHEDULE OF THE DISTRICT CONTRIBUTIONS (UNAUDITED)**

**JUNE 30, 2025**

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Contractually Required Contribution	\$ 214,767	\$ 199,037	\$ 192,897	\$ 178,937	\$ 175,806
Contributions in Relation to the Contractually Required Contribution	214,767	199,037	192,897	178,937	175,806
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 3,539,459	\$ 3,086,636	\$ 3,214,928	\$ 2,982,284	\$ 2,931,093
Contributions as a Percentage of Covered-Employee Payroll	6.1%	6.4%	6.0%	6.0%	6.1%
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually Required Contribution	\$ 175,482	\$ 176,996	\$ 194,686	\$ 197,288	\$ 184,593
Contributions in Relation to the Contractually Required Contribution	175,482	176,996	194,686	197,288	184,593
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 2,965,290	\$ 2,949,937	\$ 3,244,769	\$ 3,287,678	\$ 3,076,550
Contributions as a Percentage of Covered-Employee Payroll	5.9%	6.0%	6.0%	6.0%	6.0%

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET  
PENSION (ASSET)/LIABILITY (UNAUDITED)  
JUNE 30, 2025**

	<b>2025</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
District's Proportion of the Net Pension (Asset)/Liability	0.1193370%	0.1246410%	0.1248940%	0.1290910%	0.1326441%
District's Proportionate Share of Net Pension (Asset)/Liability	\$ (4,831)	\$ (12,165)	\$ (11,803)	\$ (988,616)	\$ (5,761)
District's Covered-Employee Payroll	\$ 3,086,636	\$ 3,214,928	\$ 2,982,284	\$ 2,931,093	\$ 2,965,290
District's Proportionate Share of the Net Pension (Asset)/Liability as a Percentage of its Covered-Employee Payroll	-0.16%	-0.39%	-0.37%	-33.73%	-0.19%
Plan Fiduciary Net Position as a Percentage of the Total Pension (Asset)/Liability	100.0%	100.1%	100.1%	105.5%	100.0%
	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
District's Proportion of the Net Pension (Asset)/Liability	0.1387418%	0.1563179%	0.1618340%	0.1642107%	0.1667829%
District's Proportionate Share of Net Pension (Asset)/Liability	\$ (14,703)	\$ (3,646)	\$ (14,687)	\$ 554,688	\$ (707,374)
District's Covered-Employee Payroll	\$ 2,949,937	\$ 3,244,769	\$ 3,287,678	\$ 3,076,550	\$ 3,060,634
District's Proportionate Share of the Net Pension (Asset)/Liability as a Percentage of its Covered-Employee Payroll	-0.50% †	-0.11%	-0.45%	18.03%	-23.11%
Plan Fiduciary Net Position as a Percentage of the Total Pension (Asset)/Liability	100.1%	100.1%	96.9%	104.1%	107.3%

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2025**

**(1) Budgets and Budgetary Accounting:**

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

1. Prior to the first regular board meeting in May of each year the 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 and actual expenditures of each fund cannot exceed the amounts budgeted, 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 percent 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 the adoption of supplemental budgets when monies are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board. The District does not employ encumbrance accounting as an extension of formal budgetary integration.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
11. Budgets for the General Fund and each major special revenue fund are adopted on a basis consistent with generally accepted accounting principles (GAAP), except for the following:

The financial statements prepared in conformity with US GAAP present federal Impact Aid grants as revenue and related transfers out to the capital outlay fund and special education fund to meet operational needs of the other funds as blended activity in the General Fund following the implementation of GASB 54. However, under the budgetary basis of accounting, the Impact Aid revenue and related transfers out are not included in the Budgetary Required Supplementary Schedule for the General Fund. The following information is provided for purposes of reconciling the two schedules:

Impact Aid Revenue	
Unrestricted Grants-in-Aid Received Directly	
from Federal Government	\$ 441,031
Earnings on Investments and Deposits	136,616
Total Impact Aid Revenue	<u>577,647</u>
Transfers Out of Impact Aid Revenue to Other Funds	-
Net Change in Fund Balance - Impact Aid	<u>\$ 577,647</u>
Impact Aid Fund Balance	\$ 2,557,133

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2025**

**(2) Schedule of the Proportionate Share of the Net Pension Liability (Asset) and Schedule of Pension Contributions**

**Changes from Prior Valuation**

The June 30, 2024, Actuarial Valuation reflects numerous changes to the actuarial assumptions as a result of an experience analysis completed since the June 30, 2023 Actuarial Valuation.

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

**Benefit Provision Change**

During the 2024 Legislative Session no significant SDRS benefit changes were made.

**Actuarial Method Changes**

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

**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% 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%.

As of June 30, 2023, the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was less than 100% and the July 2024 SDRS COLA was limited to a restricted maximum of 1.91%. The July 2024 SDRS COLA will equal inflation, between 0% and 1.91%. For this June 30, 2023 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.91%.

As of June 30, 2024, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is again less than 100% and the July 2025 SDRS COLA is limited to a restricted maximum of 1.71%. The July 2025 SDRS COLA will equal inflation, between 0% and 1.71%. For this June 30, 2024, Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.71%.

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

OTHER REPORTS



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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*

School Board  
Hill City School District No. 51-2  
Hill City, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hill City School District No. 51-2 (the District) as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 9, 2026.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as #2025-001 and #2025-002 to be material weaknesses.

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. We consider the deficiency described in the accompanying Schedule of Findings as #2025-003 to be a significant deficiency.

**Report on Compliance and Other Matters**

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

School Board  
Hill City School District No. 51-2

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**District's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying Schedule of Findings. The District's response was not subjected to the other 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record, and its distribution is not limited.



KETEL THORSTENSON, LLP  
Certified Public Accountants

March 9, 2026

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**SCHEDULE OF FINDINGS  
JUNE 30, 2025**

**Material Weaknesses**

**#2025-001 FINDING: Financial Statement Preparation**

*Condition and Cause:* As a matter of practicality and efficiency, we have assisted in drafting the financial statements in both form and content, based on information provided by management during the audit.

*Criteria and Effect:* Management and those charged with governance are ultimately responsible for preparing and presenting the financial statements in accordance with the applicable financial reporting framework. The auditor's responsibility for the financial statements is to express an opinion on them based on the audit evidence obtained.

*Repeat Finding from Prior Year:* Yes, prior year Finding #2024-001.

*Recommendation:* Management and if applicable, governance, should review the financial statements for accuracy of account balances and context of note disclosures. Management and governance should inquire of the auditors about any balances or disclosures which management does not understand or cannot reconcile to internal records prior to signing the management representation letter.

*Response/Corrective Action Plan:* The District agrees with the above finding. See Corrective Action Plan.

**#2025-002 FINDING: Internal Controls and Audit Adjustments**

*Condition and Cause:* We proposed material audit adjustments. Other entries were proposed as part of the audit but were not recorded due to the overall insignificance on the financial statements.

Furthermore, we noted there is no formal review of manual journal entry postings.

*Criteria and Effect:* District management is responsible for year-end account balances. These adjustments were not identified as a result of the District's existing internal controls and could have resulted in a material misstatement of the District's financial statements.

Without a proper review of manual journal entries, entries may be posted that are inaccurate, incomplete, or potentially fraudulent.

*Repeat Finding from Prior Year:* Yes, prior year Finding #2024-002.

*Recommendation:* We recommend the following:

- Management should continue to review and approve the pension entries prepared by the auditor.
- Ensure fund balances are accurately rolled forward.
- Record receivables due from other governments earned but not received by year-end.
- Adjust capital asset activity, including depreciation and accumulated depreciation.
- Adjust inventory to reflect year-end count balances.
- Adjust deferred revenue and property taxes.
- Reverse year end accounts payable, accounts receivable, and accrued liabilities from the previous period.

Additionally, we recommend manual journal entry postings be reviewed by an individual with the appropriate skills and knowledge of the District's financial operations.

*Response/Corrective Action Plan:* Management is in agreement with the finding. See Corrective Action Plan.

**HILL CITY SCHOOL DISTRICT NO. 51-2**

**SCHEDULE OF FINDINGS**

**JUNE 30, 2025**

**Significant Deficiencies:**

**#2025-003 FINDING: Capital Asset Records**

*Condition and Cause:* Capital asset records have not been properly maintained to support the amounts reported in the general ledger.

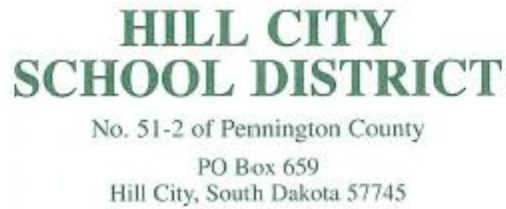
*Criteria and Effect:* District management is responsible for year-end account balances. These reconciliation differences were not identified as a result of the District's existing internal controls.

*Repeat Finding from Prior Year:* Yes, prior year Finding #2024-003.

*Recommendation:* The District should establish and maintain adequate capital asset records. The depreciation schedule should be reviewed for accuracy throughout the year and reconciled to the general ledger.

*Response/Corrective Action Plan:* Management is in agreement with the finding. See Corrective Action Plan.

MANAGEMENT RESPONSE



## **HILL CITY SCHOOL DISTRICT 51-2**

### **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS JUNE 30, 2025**

Hill City School District 51-2 (the District) respectfully submits the following schedule of prior audit findings from the June 30, 2024 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2024 Schedule of Findings.

#### Finding No. 2024-001: Financial Statement Preparation

*Status:* It is more cost effective for the District to hire Ketel Thorstenson, LLP, a public accounting firm, to prepare the full disclosure financial statements as a part of the annual audit process. The District has designated a member of management to review the draft financial statements and accompanying notes to the financial statements.

*Initial Year Report:* Originally issued years ago.

*Reasons for Recurrence and Corrective Action Plan:* Management is satisfied that appropriate actions have been taken to allow them to take responsibility for the financial statements prepared by the auditors. The finding will be repeated in 2025, see Corrective Action Plan.

#### Finding No. 2024-002: Internal Controls and Audit Adjustments

*Status:* Management agrees with the auditors' assessment and acknowledges that, although some improvements were made, the District's year-end procedures and review controls were not sufficient to prevent the need for material audit adjustments or to ensure proper oversight of manual journal entries.

*Initial Year Report:* 2024

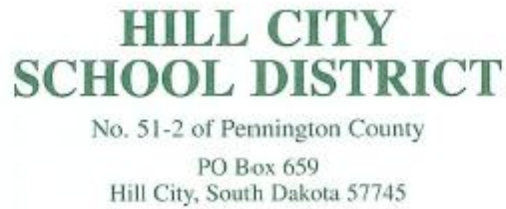
*Reasons for Recurrence and Corrective Action Plan:* Limited staffing restricted the District's ability to perform thorough reviews of complex transactions. Additionally, manual journal entry review protocols were not consistently applied or documented, and competing operational priorities during fiscal year-end contributed to delays and incomplete reconciliations. The finding will be repeated in 2025, see Corrective Action Plan.

#### Finding No. 2024-003: Capital Asset Records

*Status:* Management agrees with the auditors' assessment and acknowledges that capital asset records were not adequately maintained or reconciled to the general ledger, despite efforts to improve year-end procedures.

*Initial Year Report:* 2024

*Reasons for Recurrence and Corrective Action Plan:* The finding recurred because the District did not have established procedures to ensure timely updates to capital asset records and the depreciation schedule throughout the year. Inconsistent reconciliation practices and competing operational priorities contributed to delays in identifying differences between the capital asset records and the general ledger. The finding will be repeated in 2025, see Corrective Action Plan.



## HILL CITY SCHOOL DISTRICT 51-2

### CORRECTIVE ACTION PLAN JUNE 30, 2025

Hill City School District No. 51-2 (the District) respectfully submits the following corrective action plan from the June 30, 2025 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

#### **#2025-001: Financial Statement Preparation**

*Responsible Individuals:* Cassandra Ott, Business Manager

*Corrective Action Plan:* The District has reviewed the financial statements prepared by Ketel Thorstenson, LLP. The financial statements have been compared and reconciled to the internal records maintained by the District. The District has been given adequate opportunity to ask questions regarding the financial statements and note disclosures and have received sufficient responses from the auditors prior to final publication of the audited financial statements. The District is satisfied that appropriate actions have been taken to allow them to take responsibility for the financial statements.

*Anticipated Completion Date:* Ongoing

#### **#2025-002: Internal Controls and Audit Adjustments**

*Responsible Individuals:* Cassandra Ott, Business Manager

*Corrective Action Plan:* The District has accepted the risk of the auditors preparing a small number of adjusting entries. The District will continue the ongoing process of attempting to record all year end entries.

*Anticipated Completion Date:* Ongoing

#### **#2025-003: Capital Asset Records**

*Responsible Individuals:* Cassandra Ott, Business Manager

*Corrective Action Plan:* The District will continue to track and update capital asset schedules and reconcile to the general ledger.

*Anticipated Completion Date:* June 30, 2026