

***HILL CITY SCHOOL DISTRICT NO. 51-2
FINANCIALS STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2019***

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***INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS***

To the School Board
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 the Hill City School District No. 51-2, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Hill City School District No. 51-2's basic financial statements and have issued our report thereon dated September 25, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hill City School District No. 51-2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hill City School District No. 51-2's internal control. Accordingly, we do not express an opinion on the effectiveness of Hill City School District No. 51-2's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies therefore, material weaknesses or significant deficiencies May exist that have not been identified. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2019-001 to be a material weakness.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hill City School District No. 51-2's financial statements are free from material misstatements, 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 determination of financial statement amounts. 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*.

Hill City School District No. 51-2's Response to Findings

Hill City School District No. 51-2's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Hill City School District No. 51-2's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hill City School District No. 51-2's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hill City School District No. 51-2's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Chamberlain, South Dakota
September 25, 2019



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

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

Report on Compliance for Each Major Federal Program

We have audited Hill City School District No. 51-2's, South Dakota compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of Hill City School District's major federal programs for the year ended June 30, 2019. Hill City School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hill City School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion for each major federal program. However, our audit does not provide a legal determination on Hill City School District's compliance.

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Opinion on Each Major Federal Program

In our opinion, Hill City School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of Hill City School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hill City School District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purposes. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Chamberlain, South Dakota
September 25, 2019

**HILL CITY SCHOOL DISTRICT NO. 51-2
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2019**

Section I - Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified:	Yes
Significant deficiencies identified not considered to be material weaknesses:	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weakness identified:	No
Significant deficiencies identified not considered to be material weaknesses:	No
Type of auditor's report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major program:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Impact Aid	84.041
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

HILL CITY SCHOOL DISTRICT NO. 51-2
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2019
(CONTINUED)

Section II - Financial Statement Findings

Finding 2019-001

Material Weakness

Internal Control Over Year-end Closing Process Including Preparation of the Financial Statements

Criteria: Hill City School District 51-2 requested the external auditors to assist in the preparation of the financial statements, related footnotes, and the SEFA for the year ended June 30, 2019. As part of the financial statement preparation process, at times we propose material audit adjustments that are not identified as a result of the School District's existing internal controls and, therefore, could result in a misstatement to the School District's financial statements.

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

Cause: The limited size of the School District's staff and resources cause the inability to prepare the financial statements, footnotes, and the schedule of federal awards.

Effect: This condition may affect the School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Repeat Finding from Prior Years(s): No

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

View of Management: Management agrees with the finding. A response can be found in the Corrective Action Plan.

HILL CITY SCHOOL DISTRICT NO. 51-2

*Office of the Business Manager
Phone: (605)-574-3030*

*488 Main Street
Hill City, SD 57745*

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding 2018-001

Material Weakness

Internal Control Over Year-end Closing Process Including Preparation of the Financial Statements

Condition: The District has a small Business Office staff and duties are not segregated adequately to ensure no one staff person is responsible for the approval, recording and custody of the accounting functions referenced in the criteria above. Currently, the Business Manager is solely responsible for the reconciliation of several cycles/processes. The District also does not have an adequate internal controls structure to draft the financial statements.

Criteria: The District should have an internal controls system in place related to the oversight and review of the following cycles/processes: reconciliation of scholarship accounts, long-term debt, receivables, and deferred inflows of resources; review and approval of general journal entries; and preparation of the financial statements. In addition, the Uniform Guidance requires the auditee to prepare appropriate financial statements in accordance with Section 200.510.

Auditor's Recommendation: The District should evaluate all accounting cycles and implement controls accordingly. Key duties and responsibilities should be divided or segregated among different staff members to reduce the risk of error, waste, or fraud, and to relieve the Business Manager of some responsibilities. The Business Manager should oversee the reconciliation process to strengthen the internal controls. In addition, access to resources and records should be limited and accountability for their custody should be assigned. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the District's auditors drafting the financial statements because of cost or other considerations. If the District chooses not to accept this risk, training should be provided to those employees responsible for drafting the financial statements.

Current Status: We requested that our auditors, ELO Prof LLC, prepare the financial statements, notes to the financials, and SEFA as part of their annual audit. We designated a member of management to review the drafted financial statements and accompanying notes, and we have reviewed and agree with material adjustments proposed during the audit.

Finding 2018-002

US DEPARTMENT OF EDUCATION

Impact Aid CFDA #84.041

Material Weakness and Noncompliance

Internal Control over Compliance

See Finding 2018-001 for a description of the condition, criteria, and management's response. This finding is considered to be a material weakness in internal control over compliance and noncompliance.

HILL CITY SCHOOL DISTRICT NO. 51-2

*Office of the Business Manager
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Hill City, SD 57745*

CORRECTIVE ACTION PLAN (UNAUDITED)

Hill City School District No. 51-2 respectfully submits the following corrective action plan for the year ended June 30, 2019.

Name and address of independent public accounting firm:

ELO Prof LLC
316 Sorensen Dr
Chamberlain SD 57325

Findings - Financial Statement Audit

Finding 2019-001

Material Weakness

Internal Control Over Year-end Closing Process Including Preparation of the Financial Statements

Criteria: Hill City School District 51-2 requested the external auditors to assist in the preparation of the financial statements, related footnotes, and the SEFA for the year ended June 30, 2019. As part of the financial statement preparation process, at times we propose material audit adjustments that are not identified as a result of the School District's existing internal controls and, therefore, could result in a misstatement to the School District's financial statements.

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

Cause: The limited size of the School District's staff and resources cause the inability to prepare the financial statements, footnotes, and the schedule of federal awards.

Effect: This condition may affect the School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

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

Management's Response: The Hill City School District's agrees with the finding. We requested that our auditors, ELO Prof LLC, prepare the financial statements, notes to the financials, and SEFA as part of their annual audit. Moving forward, we will be preparing our own SEFA. We have designated a member of management to review the drafted financial statements and accompanying notes, and we have reviewed and agree with material adjustments proposed during the audit.

Anticipated Completion Date: Ongoing

If there are questions regarding this plan, please call Anjar Voorhees, Business Manager, at 605-574-3030.



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INDEPENDENT AUDITOR'S REPORT

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

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 as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Hill City School District No. 51-2 as of June 30, 2019, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), Budgetary Comparison Schedules, the Schedule Proportionate Share of the Net Pension Liability (Asset), and Schedule of District's Contributions as listed in the table on contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental 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 and opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hill City School District's financial statements. The Schedule of Expenditures of Federal Awards, which is required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally excepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2019, on our consideration of the School District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.



Chamberlain, South Dakota
September 25, 2019

HILL CITY SCHOOL DISTRICT NO. 51-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2019

This section of Hill City School District No. 51-2's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2019. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the 18-19 year, the District's revenues of \$6,823,763 generated from taxes and other revenues of the governmental and business-type programs were \$581,949 more than the \$6,241,814 in governmental and business-type program expenditures. Mainly due to increased tax revenue and state sources.
- The District applies for Impact aid every year to supplement property tax revenues not available because of the federal land in the school district. The school received \$441,032 in Impact aid in FY 2019.
- The total cost of the District's programs increased by 3.53%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This 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 include two kinds of statements that present different view 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 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 the Food Service Operation (Fund 51), and Fitness Center (Fund 53).
 - Fiduciary fund statements provide information about the financial relationships in which the School 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.

**HILL CITY SCHOOL DISTRICT NO. 51-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2019**

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

Figure A-1

Major Features of Hill City District's Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School government (except fiduciary funds)	The activities of the School that are not proprietary or fiduciary, such as elementary and high school education programs	Activities the School operates similar to private businesses, the food service operation, preschool, PASS, and the drivers' education program	Instances in which the School is the trustee or agent for someone else's resources
Required Financial Statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses and Changes in Net Position • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	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
Type of Asset/Liability Information	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
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during 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 (MD&A)
JUNE 30, 2019*

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 government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

- Increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the School you need to consider additional nonfinancial 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 School are reported in two categories:

- **Governmental Activities** – This category includes the District's basic instructional services, such as elementary and high school educational programs, 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, and federal grants finance most of these activities.
- **Business-type Activities** – The District charges a fee to students to help cover the costs of providing breakfast and hot lunch services to all students. The Food Service Fund and the Other Enterprise Funds (Fitness Center) are the only 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 School as a whole. Funds are accounting devices that 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.

The School 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 readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance 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 fund's statements, or on the subsequent page, that explains the relationship (or differences) between them.

HILL CITY SCHOOL DISTRICT NO. 51-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2019

- **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 the Fitness Center are Enterprise funds are the only 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 net position and a statement of changes in 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.**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

Table A-1
Hill City School District No. 51-2
Statement of Net Position

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>		<i>Percentage Change 2018-2019</i>
	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	
Current and Other Assets	\$ 6,964,142	\$ 7,641,242	\$ 35,066	\$ 43,149	\$ 6,999,208	\$ 7,684,391	9.79%
Capital Assets (Net of Depreciation)	10,314,104	9,864,428	7,490	6,038	10,321,594	9,870,466	-4.37%
Total Assets	17,278,246	17,505,670	42,556	49,187	17,320,802	17,554,857	1.35%
Pension Related Deferred Outflows	1,555,411	1,256,518	41,994	25,643	1,597,405	1,282,161	-19.73%
Total Deferred Outflows of Resources	1,555,411	1,256,518	41,994	25,643	1,597,405	1,282,161	-19.73%
Long-Term Liabilities Outstanding	3,861,553	3,103,769	993	973	3,862,546	3,104,742	-19.62%
Other Liabilities	567,593	504,491	6,675	5,262	574,268	509,753	-11.23%
Total Liabilities	4,429,146	3,608,260	7,668	6,235	4,436,814	3,614,495	-18.53%
Taxes Levied for Future Period	2,515,011	2,681,027	--	--	2,515,011	2,681,027	6.60%
Pension and OPEB Related Deferred Inflows	274,942	270,019	7,423	5,511	282,365	275,530	-2.42%
Total Deferred Inflows of Resources	2,789,953	2,951,046	7,423	5,511	2,797,376	2,956,557	5.69%
Net Position							
Net Investment in Capital Assets	6,421,815	6,730,928	7,490	6,038	6,429,305	6,736,966	4.79%
Restricted	2,666,112	2,984,881	34,958	20,205	2,701,070	3,005,086	11.26%
Unrestricted	2,526,631	2,487,073	27,011	36,841	2,553,642	2,523,914	-1.16%
Total Net Position	11,614,558	12,202,882	69,459	63,084	11,684,017	12,265,966	4.98%
Beginning Net Position	10,985,384	11,614,558	29,621	69,459	11,015,005	11,684,017	6.07%
Increase (Decrease) in Net Position	\$ 629,174	\$ 588,324	\$ 39,838	\$ (6,375)	\$ 669,012	\$ 581,949	
Percentage of Increase (Decrease) in Net Position	5.73%	5.07%	134.49%	-9.18%	6.07%	4.98%	

The District’s combined net position increased as follows: The District’s combined net position of approximately \$12.2 million is approximately \$580 thousand or 4.98% more than on June 30, 2018.

**HILL CITY SCHOOL DISTRICT NO. 51-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2019**

The Statement of Net Position reports all financial and capital resources. The statement presents the assets, deferred outflows of resources, liabilities and deferred inflows of resources 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 net pension liability, compensated absences payable, Capital outlay certificates, and capital leases, have been reported in this manner on the Statement of Net Position. The difference between the District's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is its net position.

Changes in Net Position

The District's revenues totaled \$6,823,763. (See Table A-4.) This was an approximately 1.88% increase. Approximately 79.83% of the District's revenue comes from property and other taxes, with another 1.61% from state aid. (See Table A-2.)

**Table A-2
Hill City School District No. 48-3
Statement of Revenues
Fiscal Year 2018-2019**

Taxes	\$ 5,447,454	79.83%
Federal sources	592,897	8.69%
Operating grants	383,678	5.62%
Charges for services	133,971	1.96%
State sources	109,717	1.61%
Other general revenue	118,826	1.74%
Intermediate sources	23,804	0.35%
Unrestricted investment sources	13,416	0.20%
<i>Total Revenues</i>	\$ 6,823,763	100.00%

Total costs of all programs and service increased by approximately 3.53%. The District's expenses totaled \$6,241,814. (See Table A-4.) The District's expenses cover a range of services, encompassing instruction, support services, interest on long term debt, co-curricular activities, food services, and fitness center. (See Table A-3.)

**Table A-3
Hill City School District No. 48-3
Statement of Expenditures
Fiscal Year 2018-2019**

Instruction	\$ 3,372,009	54.02%
Support services	2,283,627	36.59%
Cocurricular activities	321,486	5.15%
Food service	212,933	3.41%
Interest on long-term debt	39,739	0.64%
Fitness center	11,229	0.18%
Community services	791	0.01%
<i>Total Expenditures</i>	\$ 6,241,814	100.00%

**HILL CITY SCHOOL DISTRICT NO. 51-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2019**

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

Table A-4 and the narrative that follows consider the operations of the governmental activities and the business-type activities of the District.

Table A-4
Hill City School District 48-3
Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>		<u>Total Percentage Change 2018-2019</u>
	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	
<i>Revenues</i>							
Program Revenues:							
Charges for services	\$ 20,070	\$ 25,968	\$ 110,308	\$ 108,003	\$ 130,378	\$ 133,971	2.76%
Operating grants and contributions	343,461	273,894	118,389	109,784	461,850	383,678	-16.93%
General Revenues:							
Taxes	5,286,137	5,447,454	--	--	5,286,137	5,447,454	3.05%
Revenue state sources	92,405	109,717	--	--	92,405	109,717	18.73%
Federal state sources	610,579	592,897	--	--	610,579	592,897	-2.90%
Revenue Intermediate Sources	24,726	23,804	--	--	24,726	23,804	-3.73%
Unrestricted investment earnings	9,828	13,416	--	--	9,828	13,416	36.51%
Other general revenues	81,865	118,826	--	--	81,865	118,826	45.15%
<i>Total Revenues</i>	<u>6,469,071</u>	<u>6,605,976</u>	<u>228,697</u>	<u>217,787</u>	<u>6,697,768</u>	<u>6,823,763</u>	1.88%
<i>Expenses</i>							
Instruction	2,882,951	3,372,009	--	--	2,882,951	3,372,009	16.96%
Support services	2,494,297	2,283,627	--	--	2,494,297	2,283,627	-8.45%
Community services	1,708	791	--	--	1,708	791	-53.69%
Nonprogrammed	75	--	--	--	75	--	100.00%
Cocurricular activities	346,428	321,486	--	--	346,428	321,486	-7.20%
Interest on long-term debt	66,652	39,739	--	--	66,652	39,739	-40.38%
Food service	--	--	234,739	212,933	234,739	212,933	-9.29%
Other enterprise activity	--	--	1,906	11,229	1,906	11,229	100.00%
<i>Total Expenses</i>	<u>5,792,111</u>	<u>6,017,652</u>	<u>236,645</u>	<u>224,162</u>	<u>6,028,756</u>	<u>6,241,814</u>	3.53%
<i>Transfers</i>	<u>(47,786)</u>	<u>--</u>	<u>47,786</u>	<u>--</u>	<u>--</u>	<u>--</u>	0.00%
<i>Increase (Decrease) in Net Position</i>	629,174	588,324	39,838	(6,375)	669,012	581,949	-13.01%
<i>Beginning Net Position Restated</i>	<u>10,985,384</u>	<u>11,614,558</u>	<u>29,621</u>	<u>69,459</u>	<u>11,015,005</u>	<u>11,684,017</u>	6.07%
<i>Ending Net Position</i>	<u>\$ 11,614,558</u>	<u>\$ 12,202,882</u>	<u>\$ 69,459</u>	<u>\$ 63,084</u>	<u>\$ 11,684,017</u>	<u>\$ 12,265,966</u>	4.98%

GOVERNMENTAL ACTIVITIES

Revenues for the District's governmental activities did not change significantly. Overall expenditures increased slightly due to the monitoring of expenditures.

BUSINESS-TYPE ACTIVITIES

Net position of the District's business-type activities decreased \$6,375.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Overall the governmental funds have increased approximately \$598,000 in net position over last year. This was due to both an increase in taxes and state aid and consistent level of expenditures as compared to the previous year.

**HILL CITY SCHOOL DISTRICT NO. 51-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2019**

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District School Board revised the District's budget several times. These amendments were supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for the education program of this district.

CAPITAL ASSET ADMINISTRATION

By the end of 2019, the District had invested \$9,870,976 (net of depreciation) in a broad range of capital assets, including, land, buildings, various machinery and equipment. (See Table A-5.) The capitalization threshold remains at \$25,000 for all improvements \$50,000 for all buildings, and \$5,000 for all equipment for governmental activities and \$5,000 for business type activities.

Table A-5
HILL CITY SCHOOL DISTRICT - Capital Assets
(net of depreciation)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total Dollar Change</i>	<i>Total Percentage Change</i>
	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018-2019</u>	<u>2018-2019</u>
Land and CIP	\$ 388,891	\$ 388,891	\$ --	\$ --	\$ --	0.00%
Buildings	9,233,307	8,950,842	--	--	(282,465)	-3.16%
Improvements other than buildings	318,243	285,343	--	--	(32,900)	-11.53%
Machinery and equipment	373,663	239,352	7,490	6,038	(135,763)	-56.72%
<i>Total Capital Assets (Net)</i>	<u>\$ 10,314,104</u>	<u>\$ 9,864,428</u>	<u>\$ 7,490</u>	<u>\$ 6,038</u>	<u>\$ (451,128)</u>	<u>-4.57%</u>

LONG-TERM DEBT

At year-end the District had \$3,103,769 in long-term obligations. This balance includes Capital outlay certificates and accrued sick leave payable. See individual balances as shown on Table A-6 below:

Table A-6
HILL CITY SCHOOL DISTRICT - Outstanding Debt and Obligations

	<i>Governmental Activities</i>		<i>Total Dollar Change</i>	<i>Total Percentage Change</i>
	<u>2018</u>	<u>2019</u>	<u>2018-2019</u>	<u>2018-2019</u>
Capital outlay	\$ 3,755,538	\$ 3,074,038	\$ (681,500)	-18.15%
Capital leases	75,279	--	(75,279)	-100.00%
Compensated absences	30,736	29,731	(1,005)	-3.27%
<i>Total Outstanding Debt and Obligations</i>	<u>\$ 3,861,553</u>	<u>\$ 3,103,769</u>	<u>\$ (757,784)</u>	<u>-19.62%</u>

The District is liable for the accrued sick leave payable to all staff. The accrual liability is reported as compensated absences in the above schedule and with the financial statements.

*HILL CITY SCHOOL DISTRICT NO. 51-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2019*

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's current economic position has shown little change. Local revenues have increased slightly due to increases in state and federal funding and slight increases in property values. No significant increases in revenues expected.

The District receives minimal state aid, so we rely 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.

The District's fall enrollment for the last seven years has been as follows:

<u>YEAR</u>	<u>ADM</u>	<u>Percent (Decrease) in ADM</u>
2018	453	-0.66%
2017	456	-8.43%
2016	498	-5.50%
2015	527	3.74%
2014	508	4.53%
2013	486	-3.19%
2012	502	3.98%

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, 500 N. Section Line St., Hill City, SD 57349.

HILL CITY SCHOOL DISTRICT NO. 51-2
STATEMENT OF NET POSITION – GOVERNMENT-WIDE
JUNE 30, 2019

	<i>Primary Government</i>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
ASSETS:			
Cash and cash equivalents	\$ 4,528,053	\$ 39,544	\$ 4,567,597
Taxes receivable	3,080,640	--	3,080,640
Inventories	--	2,019	2,019
Other assets	28,977	1,513	30,490
Net Pension Asset	3,572	73	3,645
Capital assets:			
Land	388,891	--	388,891
Other capital assets, net of depreciation	9,475,537	6,038	9,481,575
TOTAL ASSETS	17,505,670	49,187	17,554,857
DEFERRED OUTFLOWS OF RESOURCES:			
Pension-related deferred outflows	1,256,518	25,643	1,282,161
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,256,518	25,643	1,282,161
LIABILITIES:			
Accounts payable	21,341	--	21,341
Other current liabilities	483,150	--	483,150
Unearned revenue	--	5,262	5,262
Noncurrent liabilities:			
Due within one year	584,430	--	584,430
Due in more than one year	2,519,339	973	2,520,312
TOTAL LIABILITIES	3,608,260	6,235	3,614,495
DEFERRED INFLOWS OF RESOURCES:			
Property taxes levied for future periods	2,681,027	--	2,681,027
Pension related deferred inflows	270,019	5,511	275,530
TOTAL DEFERRED INFLOWS OF RESOURCES	2,951,046	5,511	2,956,557
NET POSITION:			
Net investment in capital assets	6,730,928	6,038	6,736,966
Restricted for:			
Capital outlay	1,534,385	--	1,534,385
Special education	460,425	--	460,425
SDRS pension purposes	990,071	20,205	1,010,276
Unrestricted	2,487,073	36,841	2,523,914
TOTAL NET POSITION	\$ 12,202,882	\$ 63,084	\$ 12,265,966

*The accompanying Notes to Financial Statements are
an integral part of this financial statement.*

HILL CITY SCHOOL DISTRICT NO. 51-2
STATEMENT OF ACTIVITIES – GOVERNMENT-WIDE
JUNE 30, 2019

<u>Functions/Programs</u>					<i>Net (Expenses) Revenues and Changes in Net Position</i>		<u>Total</u>
	<u>Expenses</u>	<u>Program Revenues</u>			<u>Primary Government</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
<i>Governmental Activities:</i>							
Instruction	\$ 3,372,009	\$ --	\$ 273,894	\$ --	\$ (3,098,115)	\$ --	\$ (3,098,115)
Support Services	2,283,627	--	--	--	(2,283,627)	--	(2,283,627)
Community Services	791	--	--	--	(791)	--	(791)
Nonprogrammed Charges	--	--	--	--	--	--	--
*Interest on Long-term Debt	39,739	--	--	--	(39,739)	--	(39,739)
Cocurricular Activities	321,486	25,968	--	--	(295,518)	--	(295,518)
Total Governmental Activities	6,017,652	25,968	273,894	--	(5,717,790)	--	(5,717,790)
<i>Business-Type Activities</i>							
Food Service	212,933	90,266	109,784	--	--	(12,883)	(12,883)
Fitness Center	11,229	17,737	--	--	--	6,508	6,508
Total Business-Type Activities	224,162	108,003	109,784	--	--	(6,375)	(6,375)
Total Primary Government	\$ 6,241,814	\$ 133,971	\$ 383,678	\$ --	(5,717,790)	(6,375)	(5,724,165)
<i>General Revenues:</i>							
<i>Taxes:</i>							
					5,349,383	--	5,349,383
					98,071	--	98,071
<i>Revenue from State Sources:</i>							
					109,717	--	109,717
					--	--	--
<i>Revenue from Federal Sources</i>							
					592,897	--	592,897
<i>Revenue from Intermediate Sources</i>							
					23,804	--	23,804
<i>Unrestricted Investment Earnings</i>							
					13,416	--	13,416
<i>Other General Revenues</i>							
					118,826	--	118,826
					6,306,114	--	6,306,114
					588,324	(6,375)	581,949
					11,614,558	69,459	11,684,017
					\$ 12,202,882	\$ 63,084	\$ 12,265,966

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

The accompanying Notes to Financial Statements are an integral part of this financial statement.

HILL CITY SCHOOL DISTRICT NO. 51-2
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2019

	<i>General</i>	<i>Capital Outlay</i>	<i>Special Education</i>	<i>Total Governmental Funds</i>
ASSETS:				
Cash and cash equivalents	\$ 2,490,771	\$ 1,537,995	\$ 499,287	\$ 4,528,053
Taxes receivable, current	1,602,666	762,264	425,683	2,790,613
Taxes receivable, delinquent	195,594	59,636	34,797	290,027
Due from other governments	19,518	--	9,459	28,977
TOTAL ASSETS	\$ 4,308,549	\$ 2,359,895	\$ 969,226	\$ 7,637,670
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:				
<i>Liabilities:</i>				
Accounts payable	\$ 13,440	\$ --	\$ 7,901	\$ 21,341
Contracts payable	336,214	--	30,903	367,117
Payroll liabilities	86,815	--	7,431	94,246
Total Liabilities	436,469	--	46,235	482,704
<i>Deferred Inflows of Resources:</i>				
Property taxes levied for future periods	1,602,666	762,264	425,683	2,790,613
Unavailable revenue - property taxes	80,312	63,246	36,883	180,441
Total Deferred Inflows of Resources	1,682,978	825,510	462,566	2,971,054
<i>Fund Balances:</i>				
<i>Restricted:</i>				
For capital outlay	--	1,534,385	--	1,534,385
For special education	--	--	460,425	460,425
<i>Assigned:</i>				
For unemployment claims	4,000	--	--	4,000
<i>Unassigned</i>	2,185,102	--	--	2,185,102
Total Fund Balances	2,189,102	1,534,385	460,425	4,183,912
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 4,308,549	\$ 2,359,895	\$ 969,226	\$ 7,637,670

The accompanying Notes to Financial Statements are an integral part of this financial statement.

**HILL CITY SCHOOL DISTRICT NO. 51-2
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019**

<i>Total Fund Balances - Governmental Funds</i>	\$	4,183,912
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		9,864,428
Net pension asset reported in governmental activities is not an available financial resource and, therefore, is not reported in the funds.		3,572
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.		1,256,518
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
General Obligation Debt		(3,095,000)
Compensated Absences		(29,731)
Assets, including property taxes receivable, grants receivable, and other receivables that are not available to pay for current period expenditures, are deferred in the governmental funds. Assets at year end consist of:		
Delinquent Property Taxes Receivable		290,027
Accrued interest is not due and payable in the current period and, therefore are not reported in the funds.		(21,787)
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.		(270,019)
Unamortized discounts are immediately recognized as expenditures and other financing sources in the governmental funds.		<u>20,962</u>
 <i>Net Position - Governmental Activities</i>	 \$	 <u><u>12,202,882</u></u>

*The accompanying Notes to Financial Statements are
an integral part of this financial statement.*

HILL CITY SCHOOL DISTRICT NO. 51-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
JUNE 30, 2019

	<u>General</u>	<u>Capital Outlay</u>	<u>Special Education</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>				
<i>Revenue from Local Sources:</i>				
<i>Taxes:</i>				
Ad valorem taxes	\$ 2,877,401	\$ 1,505,330	\$ 802,386	\$ 5,185,117
Prior years ad valorem taxes	52,563	22,740	11,950	87,253
Gross receipts tax	98,071	--	--	98,071
Penalties and interest on taxes	10,221	4,378	2,354	16,953
<i>Earnings on investments and deposits</i>	13,416	--	--	13,416
<i>Cocurricular Activities:</i>				
Admissions	25,968	--	--	25,968
Other student activity income	6,058	--	--	6,058
<i>Other local revenue:</i>				
Rentals	799	--	--	799
Contributions and donations	354	--	--	354
Refund of prior year's expenditures	1,129	--	--	1,129
Charges for services	4,131	--	552	4,683
Other	14,186	--	--	14,186
<i>Revenue from Intermediate Sources:</i>				
<i>County Sources</i>				
County apportionment	23,804	--	--	23,804
<i>Revenue in Lieu of Taxes</i>	56,200	22,742	12,572	91,514
<i>Revenue from State Sources:</i>				
<i>Grants-in-Aid:</i>				
Unrestricted grants-in-aid	109,717	--	--	109,717
<i>Revenue from Federal Sources:</i>				
<i>Grants-in-Aid:</i>				
Unrestricted grants-in-aid	592,897	--	--	592,897
Restricted grants-in-aid	124,980	--	94,971	219,951
<i>Other Federal Revenue</i>	53,943	--	--	53,943
TOTAL REVENUES	4,065,838	1,555,190	924,785	6,545,813

The accompanying Notes to Financial Statements are an integral part of this financial statement.

HILL CITY SCHOOL DISTRICT NO. 51-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
JUNE 30, 2019
(CONTINUED)

	<u>General</u>	<u>Capital Outlay</u>	<u>Special Education</u>	<u>Total Governmental Funds</u>
EXPENDITURES				
<i>Instructional Services:</i>				
<i>Regular Programs:</i>				
Elementary	\$ 951,983	\$ 8,675	\$ --	\$ 960,658
Middle/junior high	379,505	--	--	379,505
High school	764,427	2,340	--	766,767
Other	--	5,147	--	5,147
<i>Special Programs:</i>				
Educationally deprived	115,269	--	--	115,269
Programs for special education	--	--	493,185	493,185
<i>Support Services:</i>				
<i>Pupils:</i>				
Attendance and social work	505	--	--	505
Guidance	146,092	--	--	146,092
Health	855	--	16,525	17,380
Psychological	--	--	23,658	23,658
Speech pathology	--	--	66,962	66,962
Student therapy services	--	--	50,079	50,079
Special education	--	--	75,538	75,538
<i>Instructional Staff:</i>				
Improvement of instruction	47,572	--	--	47,572
Educational media	206,251	8,212	--	214,463
<i>General Administration:</i>				
Board of education	57,981	--	--	57,981
Executive administration	152,517	--	--	152,517
<i>School Administration:</i>				
Office of the principal	224,764	--	--	224,764
<i>Business:</i>				
Fiscal services	182,687	--	--	182,687
Operation and maintenance of plant	730,709	48,303	--	779,012
Pupil transportation	159,688	--	--	159,688
Internal services	39,056	--	--	39,056
Food services	--	571	--	571
<i>Debt services:</i>	--	809,991	--	809,991
<i>Cocurricular Activities:</i>				
Male activities	88,638	9,441	--	98,079
Female activities	65,694	4,089	--	69,783
Combined activities	60,765	--	--	60,765
Transportation	36,861	--	--	36,861
TOTAL EXPENDITURES	4,411,819	896,769	725,947	6,034,535
<i>Excess of Revenue Over (Under) Expenditures</i>	(345,981)	658,421	198,838	511,278
OTHER FINANCING SOURCES:				
Inferfund transfers in	233,895	--	--	233,895
Interfund transfers (out)	--	(233,895)	--	(233,895)
Sale of surplus property	--	103	--	103
TOTAL OTHER FINANCING SOURCES	233,895	(233,792)	--	103
<i>Net Change in Fund Balances</i>	(112,086)	424,629	198,838	511,381
<i>FUND BALANCE, Beginning</i>	2,301,188	1,109,756	261,587	3,672,531
<i>FUND BALANCE, Ending</i>	\$ 2,189,102	\$ 1,534,385	\$ 460,425	\$ 4,183,912

The accompanying Notes to Financial Statements are an integral part of this financial statement.

HILL CITY SCHOOL DISTRICT NO. 51-2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2019

Net Change in Fund Balances - Total Governmental Funds \$ 511,381

Amounts reported for governmental activities in the statement of activities are different because:

This amount represents the current year depreciation expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources. (449,676)

In the statement of activities, gains and losses (\$103) on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds \$4,150 from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized. --

Payment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net position . 760,279

Governmental funds recognize expenditures for amounts of compensated absences and early retirement benefits actually paid to employees with current financial resources during the fiscal year. Amounts of compensated earned by employees are not recognized in the funds. 1,005

In both the government-wide and fund financial statement, revenues from property tax levies are applied to finance a particular period. Accounting for revenues from property tax accruals in the funds' statements differs from the accounting in the government wide statements in the fund financial statements require the amounts to be "available". The amount reflects the application of both the application period and "availability criteria". 60,060

Unamortized discounts associated with general obligation debt are recorded as expenditures or other financing sources in the governmental funds. However, these items are amortized over the life of the debt in the governmental activities. This is the amount by which the deferrals exceed amortization of unamortized discounts for the current period. (3,500)

Accrued interest expense reported in the statement of activities does not require the use of current financial resources and therefore is not reported as an expenditure in the governmental funds. 13,473

Pension revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (304,698)

Change in net position of governmental activities \$ 588,324

The accompanying Notes to Financial Statements are an integral part of this financial statement.

HILL CITY SCHOOL DISTRICT NO. 51-2
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
JUNE 30, 2019

	<i>Food Service Fund</i>	<i>Other Enterprise Fund</i>	<i>Totals</i>
ASSETS:			
<i>Current Assets:</i>			
Cash and cash equivalents	\$ 18,206	\$ 21,338	\$ 39,544
Accounts receivable	1,513	--	1,513
Due from other governments	--	--	--
Inventory-materials and supplies	1,017	--	1,017
Inventory-purchased food	831	--	831
Inventory of donated food	171	--	171
<i>Total Current Assets</i>	<u>21,738</u>	<u>21,338</u>	<u>43,076</u>
<i>Noncurrent Assets:</i>			
Machinery and equipment - local funds	140,943	--	140,943
Less accumulated depreciation	(134,905)	--	(134,905)
<i>Total Noncurrent Assets</i>	<u>6,038</u>	<u>--</u>	<u>6,038</u>
<i>Restricted Assets:</i>			
Net pension asset	73	--	73
TOTAL ASSETS	<u>\$ 27,849</u>	<u>\$ 21,338</u>	<u>\$ 49,187</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Pension-related deferred outflows of resources	25,643	--	25,643
LIABILITIES:			
<i>Current Liabilities:</i>			
Unearned Revenue	5,262	--	5,262
<i>Total Current Liabilities</i>	<u>5,262</u>	<u>--</u>	<u>5,262</u>
<i>Noncurrent Liabilities:</i>			
Accrued leave payable, net of current portion	973	--	973
<i>Total Noncurrent Liabilities</i>	<u>973</u>	<u>--</u>	<u>973</u>
TOTAL LIABILITIES	<u>6,235</u>	<u>--</u>	<u>6,235</u>
DEFERRED INFLOWS OF RESOURCES:			
Pension-related deferred inflows of resources	5,511	--	5,511
NET POSITION:			
Net investment in capital assets	6,038	--	6,038
Restricted for net pension liability	20,205	--	20,205
Unrestricted	15,503	21,338	36,841
<i>Total Net Position</i>	<u>\$ 41,746</u>	<u>\$ 21,338</u>	<u>\$ 63,084</u>

*The accompanying Notes to Financial Statements are
an integral part of this financial statement.*

HILL CITY SCHOOL DISTRICT NO. 51-2
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION –
PROPRIETARY FUNDS
JUNE 30, 2019

	<i>Food Service Fund</i>	<i>Other Enterprise Fund</i>	<i>Totals</i>
OPERATING REVENUE:			
Sales to Pupils	\$ 78,562	\$ --	\$ 78,562
Sales to Adults	1,901	--	1,901
Other	9,803	17,737	27,540
<i>Total Operating Revenue</i>	90,266	17,737	108,003
OPERATING EXPENSES:			
Personnel	115,439	--	115,439
Purchased services	--	8,523	8,523
Supplies	5,283	566	5,849
Cost of sales - purchased food	78,839	--	78,839
Cost of sales - donated food	10,697	--	10,697
Miscellaneous	1,223	2,140	3,363
Depreciation	1,452	--	1,452
<i>Total Operating Expenses</i>	212,933	11,229	224,162
<i>Operating (Loss)</i>	(122,667)	6,508	(116,159)
NONOPERATING REVENUES:			
<i>State Sources:</i>			
Cash reimbursements	738	--	738
<i>Federal Sources:</i>			
Cash reimbursements	98,628	--	98,628
Donated food	10,418	--	10,418
<i>Total Nonoperating Revenue</i>	109,784	--	109,784
<i>Change in Net Position</i>	(12,883)	6,508	(6,375)
<i>NET POSITION - Beginning</i>	54,629	14,830	69,459
<i>NET POSITION - Ending</i>	\$ 41,746	\$ 21,338	\$ 63,084

*The accompanying Notes to Financial Statements are
an integral part of this financial statement.*

HILL CITY SCHOOL DISTRICT NO. 51-2
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
JUNE 30, 2019

	<i>Food Service Fund</i>	<i>Other Enterprise Fund</i>	<i>Totals</i>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from Customers	\$ 95,643	\$ 17,737	\$ 113,380
Payments to Employees	(100,885)	--	(100,885)
Payments to Suppliers	(84,959)	(11,229)	(96,188)
<i>Net Cash Provided (Used) by Operating Activities</i>	(90,201)	6,508	(83,693)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating Subsidies	99,366	--	99,366
<i>Net Cash Provided by Noncapital Financing Activities</i>	99,366	--	99,366
NET CHANGE IN CASH AND CASH EQUIVALENTS	9,165	6,508	15,673
<i>CASH AND CASH EQUIVALENTS, Beginning of Year</i>	9,041	14,830	23,871
<i>CASH AND CASH EQUIVALENTS, End of Year</i>	\$ 18,206	\$ 21,338	\$ 39,544
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED) BY OPERATING ACTIVITIES:			
<i>Operating (Loss)</i>	\$ (122,667)	\$ 6,508	\$ (116,159)
<i>Adjustments to reconcile operating (loss) to net cash (used) by operating activities:</i>			
Depreciation Expense	1,452	--	1,452
Cost of Sales - Donated Food	10,697	--	10,697
Net Pension Expense	14,753	--	14,753
Change in Assets and Liabilities:			
Receivables	6,271	--	6,271
Inventory	726	--	726
Accounts payable	(340)	--	(340)
Deferred revenue	(894)	--	(894)
Other current liabilities	(179)	--	(179)
Accrued wages payable	(20)	--	(20)
NET CASH (USED) BY OPERATING ACTIVITIES	\$ (90,201)	\$ 6,508	\$ (83,693)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Value of commodities received	\$ 10,418	\$ --	\$ 10,418

*The accompanying Notes to Financial Statements are
an integral part of this financial statement.*

HILL CITY SCHOOL DISTRICT NO. 51-2
STATEMENT OF NET POSITION – FIDUCIARY FUNDS
JUNE 30, 2019

	<i>Private- Purpose Trust Funds</i>	<i>Agency Funds</i>
	<u> </u>	<u> </u>
ASSETS:		
Cash and cash equivalents	\$ 14,585	\$ 65,020
	<u> </u>	<u> </u>
TOTAL ASSETS	\$ 14,585	\$ 65,020
	<u> </u>	<u> </u>
LIABILITIES:		
Amounts held for others	\$ --	\$ 65,020
	<u> </u>	<u> </u>
TOTAL LIABILITIES	\$ --	\$ 65,020
	<u> </u>	<u> </u>
NET POSITION:		
Restricted for Scholarships:		
Non-expendable	5,000	--
Expendable	9,585	--
	<u> </u>	<u> </u>
TOTAL LIABILITIES AND NET POSITION	\$ 14,585	\$ 65,020
	<u> </u>	<u> </u>

*The accompanying Notes to Financial Statements are
an integral part of this financial statement.*

HILL CITY SCHOOL DISTRICT NO. 51-2
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS
JUNE 30, 2019

	<u>Private- Purpose Trust Funds</u>
ADDITIONS:	
Private Donations	\$ 100
Interest	81
TOTAL ADDITIONS	<u>181</u>
DEDUCTIONS:	
Scholarships Awarded	<u>3,667</u>
CHANGE IN NET POSITION	(3,486)
NET POSITION - Beginning	<u>18,071</u>
NET POSITION - Ending	<u><u>\$ 14,585</u></u>

*The accompanying Notes to Financial Statements are
an integral part of this financial statement.*

*HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019*

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

The accounting policies of the District conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. **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 District is a public education agency operating under the applicable laws and regulations of the State of South Dakota. It is governed by a five-member Board of Trustees (the Board) elected by registered voters of the District. The Board has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has accountability for fiscal matters. There are no component units included within the reporting entity.

The District participates in a cooperative service unit with several other School Districts. See Note 9 – Joint Venture for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit but are discussed in the notes because of the nature of their relationship with the District.

b. **Government-Wide and Fund Financial Statements:**

Government-Wide Financial Statements:

The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the overall government, except for fiduciary funds. 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 are generally 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 for goods and services.

The Statement of Net Position reports all financial and capital resources in a net position form (assets and deferred outflows of resources minus liabilities and deferred inflows of resources equal net position). Net Positions are displayed in three components, as applicable: net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

1. ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)***

b. **Government-Wide and Fund Financial Statements: (continued)**

Government-wide Financial Statements: (continued)

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, including all taxes, 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, deferred inflows and outflows of resources, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. Major individual governmental and proprietary funds are reported in separate columns.

c. **Fund Types and Major Funds:**

An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is a primary operating fund of the District or if it meets the following criteria:

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

**HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

c. Fund Types and Major Funds: (continued)

The funds of the District are described below within 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 District, excluding Capital Outlay Fund and Special Education Fund expenditures. The General Fund is always a major fund.

Special Revenue Fund Types – Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The District’s special revenue funds are as follows:

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

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

Proprietary Funds:

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

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

Other Enterprise Fund – A fund used to record financial transactions related to the fitness center. This fund is financed by user charges. This is not a major fund.

*HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019*

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)*

c. *Fund Types and Major Funds: (continued)*

Fiduciary Funds:

Fiduciary Funds are never considered to be major funds.

Private-Purpose Trust Fund Types – Private-purpose trust funds are used to account for all trust arrangements under which principal and income benefits individuals, private organizations, or other governments. The District maintains several Scholarship Funds. The purpose of these funds is to provide scholarships to qualifying students.

Agency Fund Types – Agency funds are used to account for resources held by the District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature, they do not involve the measurement of the results of operations. The district maintains a variety of agency funds to hold assets as an agent in a trustee capacity for various classes, clubs, and so on.

d. *Measurement Focus and Basis of Accounting:*

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

Measurement Focus:

Government-Wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the “current financial resources” measurement focus and the modified accrual basis of accounting are applied to governmental funds while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

*HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019*

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)*

d. *Measurement Focus and Basis of Accounting: (continued)*

Basis of Accounting:

Government-Wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests), and expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental 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 District considers significant revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end.

Receivables, such as taxes receivable and grants receivable, 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. Reported deferred inflows of resources are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

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

*HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019*

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)*

e. *Interfund Eliminations and Reclassifications:*

In the process of aggregating data for the government-wide financial statements the District has charged certain “centralized expenses”, including an administrative overhead component, as direct expenses to programs in order to show all expenses that are associated with a service, program or department. This process minimizes the doubling-up effect on internal service fund activity.

f. *Cash and Cash Equivalents:*

The District pools its cash resources for depositing purposes. Accordingly, the enterprise funds have access to their cash resources on demand. All reported enterprise fund deposit balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

g. *Inventory:*

Inventory is valued at the lower of cost or market. The cost valuation method is first-in, first-out for enterprise fund inventories and average cost for governmental fund inventories.

Donated commodities are valued at estimated market value based on the USDA price list at the date of receipt.

Inventory in the governmental funds and governmental activities consist of expendable supplies held for consumption. In the government-wide financial statements and governmental funds, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed. Inventories reported in the fund financial statement are equally offset by nonspendable fund balance which indicates that they do not constitute “available spendable resources” even though they are a component of net current assets. Nonspendable fund balances related to inventory are reported net of the related liability (accounts payable). The governmental funds did not report any inventory balances as of June 30, 2019.

h. *Pensions:*

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

**HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

i. Capital Assets:

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

The accounting treatment 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 fair value on the date donated. Interest costs incurred during construction of capital assets are not capitalized.

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

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

Depreciation expense is calculated using the straight-line and composite methods. Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities. Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

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

*HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019*

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)*

j. *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.

Government-Wide Financial Statements:

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide financial statements. Long-term liabilities consist of compensated absences, early retirement payable, capital outlay certificates payable, and capital leases.

Compensated Absences Payable – Compensated absences payable is the annual leave earned by employees. Vacation leave is earned by 12 month employees at varying rates depending on years of service. Sick leave is earned by the employees at the rate of one day for each month worked. Upon termination, employees are entitled to receive compensation for their accrued annual leave; employees are not entitled to compensation for sick leave balances. Accrued leave payable balances are reported in Note 5 as compensated absences. For employees normally paid out of the governmental funds, these amounts are charged as an expenditure at the time of termination or when the benefit becomes payable to the employees.

Fund Financial Statements:

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

k. *Deferred Outflows/Inflows of Resources:*

The District reports increases in net position that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary funds statements of net position. The only deferred outflow of resources reported is a deferred amount arising from the District's pension plan for qualified retirees as discussed in Note 9.

The District's governmental funds report a separate section for deferred inflows of resources. This section reflects a decrease in net position that applies to a future period or periods. Under the modified accrual basis of accounting, governmental fund revenues are not recognized until available (collected no later than 60 days after the end of the District's fiscal year). The District reports the following as deferred inflows of resources in the governmental funds: property taxes levied but not collected within the available period; property taxes collected within the available period that are intended to finance the next fiscal year; and capital credits that are owed to the District but will be received at some point in the future. In the government-wide financial statements, the District reports deferred inflows of resources for property taxes levied for a future period and pension-related items. In the business-type activities, the District reports deferred inflows for pension-related items.

*HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019*

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)*

1. *Net Position and Fund Balance:*

Government-Wide Financial Statements:

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 positions are available. Net position includes the following three components:

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 capital outlay certificates of other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted – 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.

Unrestricted – Represents all other net positions that do not meet the definition of “restricted” or “net investment in capital assets.”

Fund Financial Statements:

Governmental fund equity is classed as fund balance, which is distinguished between the following classifications:

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

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

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

Unassigned – Represents fund balance that has not been assigned to other funds and that has not been restricted or assigned.

The District uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents or contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use assigned, then unassigned amounts of unrestricted fund balance when expenditures are made. The District does not have a minimum fund balance policy.

Proprietary net positions are classified the same as in the government-wide financial statements. Fiduciary net positions (except for Agency Funds, which do not have net position) are reported as net position held in trust for other purposes.

*HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019*

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)*

m. *Proprietary Fund Revenue and Expense Classifications:*

In the proprietary fund 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, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

n. *Program Revenues:*

In the Statement of Activities, reported program revenues derive directly from the program itself or from parties' other than the District's taxpayers or citizenry. Program revenues are classified into three categories, as follows:

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

Program Revenues – Operating Grants and Contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the use in a particular program.

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

2. *DEPOSITS AND INVESTMENTS:*

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Statutes impose various restrictions on deposits and investments. 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 which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA", or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The District's policy is to report deposits at cost plus interest and credit all income from investments to the fund making the investment with the exception of the general checking account whose interest income is credited to the General Fund.

HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

2. DEPOSITS AND INVESTMENTS: (continued)

Investments – In general, SDCL 4-5-6 permits school district funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent. As of June 30, 2019, the District did not have any investments.

Certificates of deposit, with a term to maturity of greater than 3 months when purchased, when insured or collateralized and are considered deposits.

Custodial Credit Risk – Deposits – 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, 2019, the District’s deposits in financial institutions were not exposed to credit risk as all deposits were fully collateralize by pledged securities.

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.

Concentrations of Credit Risk – The District places no limit on the amount that may be deposited with any one financial institution or invested with any one issuer.

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.

3. DUE FROM OTHER GOVERNMENTS:

As of June 30, 2019, amounts due from other governments as reported in the financial statements consisted of the following:

S.D. Department of Education	<u>\$ 28,977</u>
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HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

4. CHANGES IN CAPITAL ASSETS:

A summary of changes in capital assets for the year ended June 30, 2019 is as follows:

	<u>Balance 7/1/2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2019</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 388,891	\$ --	\$ --	\$ 388,891
<i>Total capital assets not being depreciated</i>	<u>388,891</u>	<u>--</u>	<u>--</u>	<u>388,891</u>
Capital assets being depreciated:				
Buildings	13,800,957	--	--	13,800,957
Improvements	819,521	--	--	819,521
Equipment	1,440,809	--	--	1,440,809
<i>Total capital assets being depreciated</i>	<u>16,061,287</u>	<u>--</u>	<u>--</u>	<u>16,061,287</u>
Less accumulated depreciation for:				
Buildings	4,567,650	282,465	--	4,850,115
Equipment	1,067,146	134,311	--	1,201,457
Improvements	501,278	32,900	--	534,178
<i>Total accumulated depreciation</i>	<u>6,136,074</u>	<u>449,676</u>	<u>--</u>	<u>6,585,750</u>
<i>Total capital assets being depreciated, net</i>	<u>9,925,213</u>	<u>(449,676)</u>	<u>--</u>	<u>9,475,537</u>
<i>Net Capital Assets</i>	<u>\$ 10,314,104</u>	<u>\$ (449,676)</u>	<u>\$ --</u>	<u>\$ 9,864,428</u>
	<u>Balance</u>			<u>Balance</u>
	<u>7/1/2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30/2019</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Equipment	\$ 140,943	\$ --	\$ --	\$ 140,943
Less accumulated depreciation for:				
Less: Accumulated Depreciation	<u>133,453</u>	<u>1,452</u>	<u>--</u>	<u>134,905</u>
<i>Total capital assets being depreciated, net</i>	<u>\$ 7,490</u>	<u>\$ (1,452)</u>	<u>\$ --</u>	<u>\$ 6,038</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 347,785
Support services	45,102
Community services	791
Co-curricular activities	55,998
<i>Total Depreciation Expense</i>	<u>\$ 449,676</u>

All depreciation expense related to the business-type activities was for the Food Service Fund.

HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

5. LONG-TERM LIABILITIES:

The following is a summary of changes in long-term liabilities:

	<i>Balance 7/1/2018</i>	<i>Increase</i>	<i>Decrease</i>	<i>Balance 6/30/2019</i>	<i>Amounts Due Within 1 Year</i>
Governmental Activities:					
General Obligation Debt					
Capital Outlay					
Certificates	\$ 3,780,000	\$ --	\$ 685,000	\$ 3,095,000	\$ 580,000
Capital Outlay Certificates					
Discounts	(24,462)	--	3,500	(20,962)	--
Capital Leases	75,279	--	75,279	--	--
Subtotal	<u>3,830,817</u>	<u>--</u>	<u>763,779</u>	<u>3,074,038</u>	<u>580,000</u>
Other Liabilities:					
Compensated Absences	<u>30,736</u>	<u>--</u>	<u>1,005</u>	<u>29,731</u>	<u>4,430</u>
Total Long-term Liabilities	<u>\$ 3,861,553</u>	<u>\$ --</u>	<u>\$ 764,784</u>	<u>\$ 3,103,769</u>	<u>\$ 584,430</u>
Business-type Activities:					
Compensated Absences	<u>\$ 993</u>	<u>\$ --</u>	<u>\$ 20</u>	<u>\$ 973</u>	<u>\$ --</u>

Capital outlay certificates and other general obligations at June 30, 2019 were comprised of the following:

2012 Capital Outlay Certificates, Bearing Interest at Fixed Rates Ranging from 0.55% to 1.85%, Due 1/15/2020	\$ 165,000
2016 Capital Outlay Certificates, Bearing Interest at Fixed Rates Ranging from 0.80% to 1.55%, Due 06/30/2024	2,930,000
2016 Capital Outlay Certificates Discount	(20,962)
	<u>\$ 3,074,038</u>

The annual debt service requirements to maturity for all long-term debt outstanding as of June 30, 2019, excluding compensated absences, are as follows:

<i>Year Ending June 30,</i>	<i>General Obligation Debt</i>		<i>Totals</i>
	<i>Principal</i>	<i>Interest</i>	
2020	\$ 580,000	\$ 39,260	\$ 619,260
2021	545,000	30,863	575,863
2022	730,000	22,848	752,848
2023	745,000	12,888	757,888
2024	<u>495,000</u>	<u>3,836</u>	<u>498,836</u>
Total Payments	<u>\$ 3,095,000</u>	<u>\$ 109,695</u>	<u>\$ 3,204,695</u>

Payments of all capital outlay certificates are made from the Capital Outlay fund. Compensated absence payments are made from the fund that the related payroll expenditures are charged.

*HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019*

6. *RESTRICTED NET POSITION:*

The following table shows the components of restricted net position as presented on the Statement of Net Position:

<i>Major Purposes</i>	<i>Restricted By</i>	<i>Total</i>
Capital Outlay Purposes	State Law	\$ 1,534,385
Special Education Purposes	State Law	460,425
Proportionate Share of Net Pension Liability	State Law	1,010,276
		\$ 3,005,086

7. *PROPERTY TAX:*

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, and 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. Revenue related to current year property taxes receivable which is not intended to be used to finance the current year’s appropriations and therefore are not susceptible to accrual has been reported as deferred revenue in both 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.”

State statute allows the General Fund tax rates to be increased by special election of the voters.

8. *INTERFUND TRANSFERS:*

Interfund transfers for the year ended June 30, 2019 were as follows:

\$233,985 Transfer to cover the expenditures in the general fund for insurance, utilities, and fuel.

*HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019*

9. **PENSION PLAN:**

a. **Plan Information:**

All employees working more than 20 hours per week during the school year participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established 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 vest after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

b. **Benefits Provided:**

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

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

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

*HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019*

9. *PENSION PLAN: (continued)*

b. *Benefits Provided: (continued)*

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

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

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

c. *Contributions:*

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the years ended June 30, were:

<u>Year</u>	<u>Amount</u>
2019	\$ 176,996
2018	\$ 194,686
2017	\$ 197,288

HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

9. **PENSION PLAN: (continued)**

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

At June 30, 2018, SDRS is 100.02% funded and accordingly has a net pension (asset). The proportionate shares of the components of the net pension (asset) of the South Dakota Retirement System, for the School District as of the measurement period ending June 30, 2018 and reported by the District as of June 30, 2019 are as follows:

Proportionate share of pension liability	\$	19,122,974
Less proportionate share of net pension restricted for pension benefits		19,126,619
<i>Proportionate share of net pension liability (asset)</i>	<u>\$</u>	<u>(3,645)</u>

At June 30, 2019, the District reported a liability (asset) of (\$3,645) for its proportionate share of the net pension (asset). The net pension liability (asset) was measured as of June 30, 2018 and the total pension liability (asset) used to calculate the net pension liability (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, 2018, the District's proportion was .15631790%, which is a decrease of (0.0055161%) from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$319,450. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 137,794	\$ --
Changes in Assumption	925,578	--
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	--	275,530
Changes in Proportion and Difference Between School District Contributions and Proportionate Share of Contributions	41,793	--
District Contributions Subsequent to the Measurement Date	176,996	--
Total	\$ 1,282,161	\$ 275,530

**HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

9. PENSION PLAN: (continued)

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

\$176,996 reported as deferred outflow of resources related to pensions 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension revenue as follows:

Year Ended June 30,		
2020	\$	514,802
2021		381,546
2022		(38,864)
2023		(27,849)
Total	<u>\$</u>	<u>829,635</u>

e. Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00%
Discount Rate	6.50% net of plan investment expense

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

A detailed experience analysis covering the period from June 30, 2011 to June 30, 2016, was conducted and appropriate modifications in the economic and demographic assumptions were made effective with the June 30, 2017 actuarial valuation.

HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

9. **PENSION PLAN: (continued)**

e. **Actuarial Assumptions: (continued)**

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
<i>Total</i>	<u>100%</u>	

f. **Discount Rate:**

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

**HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

9. PENSION PLAN: (continued)

g. Sensitivity of liability (asset) to changes in the discount rate:

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

	1% Decrease	Current Discount Rate	1% Increase
School Districts proportionate share of the net pension liability (asset)	\$ 2,753,522	\$ (3,645)	\$ (2,246,452)

h. Pension Plan Fiduciary Net Position:

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

10. JOINT VENTURE:

The District participates in the Black Hills Special Services Cooperative (the Co-op), a cooperative service unit formed for the purpose of providing special education and other services to the member school districts. During the year ended June 30, 2019, the district paid \$6,500 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:

Belle Fourche School District	8.33%	Hot Springs School District	8.33%
Custer School District	8.33%	Lead/Deadwood School District	8.33%
Douglas School District	8.33%	Meade School District	8.33%
Edgemont School District	8.33%	Oelrichs School District	8.33%
Haakon School District	8.33%	Rapid City School District	8.33%
Hill City School District	8.33%	Spearfish School District	8.33%

The Co-op's governing board is comprised of one representative, a school Board member, from each member school district. 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.

Separate financial statements may be obtained by writing to BHSSC, PO Box 218, Sturgis SD 57785.

At June 30, 2019, this joint venture had assets of \$6,275,739, deferred inflows of \$1,324,099 liabilities of \$816,798, and net position of \$4,134,842 (unaudited).

HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

11. 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, 2019, the District managed its risks as follows:

Employee Health Insurance:

The District purchases health insurance for its employees from a commercial insurance carrier. The plan provides either a deductible of \$1,500 per person or \$4,500 per family, or a deductible of \$2,000 per person up to \$6,000 per family with the use of a health savings account. The District pays varying premiums based on the deductible selected. The coverage also includes a \$2,000,000 lifetime maximum payment per person.

Liability Insurance:

The District purchases insurance for risks related to torts, theft or damage to property, general liability, and errors and omissions of public officials from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage for the last three years.

Workers' 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.

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, 2019, no claims were filed for unemployment benefits. At June 30, 2019, no claims were outstanding. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

12. CONCENTRATIONS:

The District is dependent upon grant revenues, property taxes and operating revenues from the State of South Dakota for its primary existence.

13. SUBSEQUENT EVENTS:

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

REQUIRED SUPPLEMENTARY INFORMATION

**HILL CITY SCHOOL DISTRICT NO. 51-2
REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND – BUDGETARY BASIS
JUNE 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
<i>Revenue from Local Sources:</i>				
<i>Taxes:</i>				
Ad valorem taxes	\$ 2,804,079	\$ 2,804,079	\$ 2,877,401	\$ 73,322
Prior years ad valorem taxes	68,000	68,000	52,563	(15,437)
Utility taxes	81,000	81,000	98,071	17,071
Penalties and interest on taxes	13,000	13,000	10,221	(2,779)
<i>Earnings on investments and deposits</i>	3,900	3,900	13,416	9,516
<i>Cocurricular Activities:</i>				
Admissions	17,000	17,000	25,968	8,968
Other student activity income	1,800	1,800	6,058	4,258
<i>Other local revenue:</i>				
Rentals	1,800	1,800	799	(1,001)
Contributions and donations	--	--	354	354
Refund of prior year's expenditures	--	--	1,129	1,129
Charges for services	5,000	5,000	4,131	(869)
Other	2,900	2,900	14,186	11,286
<i>Revenue from Intermediate Sources:</i>				
<i>County Sources</i>				
County apportionment	24,000	24,000	23,804	(196)
<i>Revenue in Lieu of Taxes</i>	5,000	5,000	--	(5,000)
<i>Revenue from State Sources:</i>				
<i>Grants-in-Aid:</i>				
Unrestricted grants-in-aid	99,439	99,439	109,717	10,278
<i>Revenue from Federal Sources:</i>				
<i>Grants-in-Aid:</i>				
Unrestricted grants-in-aid	441,031	441,031	592,897	151,866
Restricted grants-in-aid	259,647	259,647	124,980	(134,667)
<i>Revenue in Lue of Taxes</i>	--	--	56,200	56,200
<i>Other Federal Revenue</i>	19,000	19,000	53,943	34,943
TOTAL REVENUES	<u>3,846,596</u>	<u>3,846,596</u>	<u>4,065,838</u>	<u>219,242</u>

HILL CITY SCHOOL DISTRICT NO. 51-2
REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND – BUDGETARY BASIS
JUNE 30, 2019
(CONTINUED)

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>EXPENDITURES</u>				
<i>Instructional Services:</i>				
<i>Regular Programs:</i>				
Elementary	\$ 942,732	\$ 942,732	\$ 951,983	\$ (9,251)
Middle/junior high	437,164	437,164	379,505	57,659
High school	730,953	730,953	764,427	(33,474)
<i>Special Programs:</i>				
Educationally deprived	114,993	114,993	115,269	(276)
<i>Support Services:</i>				
<i>Pupils:</i>				
Attendance and social work	2,000	2,000	505	1,495
Guidance	144,300	144,300	146,092	(1,792)
Health	2,040	2,040	855	1,185
<i>Instructional Staff:</i>				
Improvement of instruction	69,179	69,179	47,572	21,607
Educational media	145,273	145,273	206,251	(60,978)
<i>General Administration:</i>				
Board of education	75,410	75,410	57,981	17,429
Executive administration	156,270	156,270	152,517	3,753
<i>School Administration:</i>				
Office of the principal	221,050	221,050	224,764	(3,714)
Other	650	650	--	650
<i>Business:</i>				
Fiscal services	167,350	167,350	182,687	(15,337)
Operation and maintenance of plant	733,350	733,350	730,709	2,641
Pupil transportation	179,000	179,000	159,688	19,312
Internal services	43,025	43,025	39,056	3,969
<i>Cocurricular Activities:</i>				
Male activities	93,473	93,473	88,638	4,835
Female activities	68,089	68,089	65,694	2,395
Combined activities	35,800	35,800	60,765	(24,965)
Transportation	75,438	75,438	36,861	38,577
<i>Contingencies</i>	19,500	19,500	--	19,500
TOTAL EXPENDITURES	<u>4,457,039</u>	<u>4,457,039</u>	<u>4,411,819</u>	<u>45,220</u>
<i>Excess of Revenue Over (Under) Expenditures</i>	<u>(610,443)</u>	<u>(610,443)</u>	<u>(345,981)</u>	<u>264,462</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	<u>233,895</u>	<u>233,895</u>	<u>233,895</u>	<u>--</u>
Total Other Financing Sources (Uses):	<u>233,895</u>	<u>233,895</u>	<u>233,895</u>	<u>--</u>
<i>Net Change in Fund Balances</i>	<u>(376,548)</u>	<u>(376,548)</u>	<u>(112,086)</u>	<u>264,462</u>
<i>FUND BALANCE, Beginning</i>	<u>2,301,188</u>	<u>2,301,188</u>	<u>2,301,188</u>	<u>--</u>
<i>FUND BALANCE, Ending</i>	<u>\$ 1,924,640</u>	<u>\$ 1,924,640</u>	<u>\$ 2,189,102</u>	<u>\$ 264,462</u>

HILL CITY SCHOOL DISTRICT NO. 51-2
REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON SCHEDULE – CAPITAL OUTLAY FUND – BUDGETARY BASIS
JUNE 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
<i>Revenue from Local Sources:</i>				
<i>Taxes:</i>				
Ad valorem taxes	\$ 1,508,500	\$ 1,508,500	\$ 1,505,330	\$ (3,170)
Prior year ad valorem taxes	20,500	20,500	22,740	2,240
Penalties and interest on taxes	4,000	4,000	4,378	378
<i>Revenue from Local Sources:</i>				
Contributions and donations	--	--	--	--
<i>Revenue in Lieu of taxes:</i>	<u>1,000</u>	<u>1,000</u>	<u>22,742</u>	<u>21,742</u>
TOTAL REVENUES	<u>1,534,000</u>	<u>1,534,000</u>	<u>1,555,190</u>	<u>21,190</u>
<u>EXPENDITURES</u>				
<i>Instructional Services:</i>				
Elementary	15,000	15,000	8,675	6,325
Middle school	--	--	--	--
High school	10,000	10,000	2,340	7,660
Other	10,000	10,000	5,147	4,853
<i>Special Programs:</i>				
Programs for special education	5,000	5,000	--	5,000
<i>Support Services:</i>				
<i>Instructional staff:</i>				
Educational media	10,000	10,000	8,212	1,788
<i>Business:</i>				
Fiscal Services	3,500	3,500	--	3,500
Operation and maintenance of plant	55,000	55,000	48,303	6,697
Food service	5,000	5,000	571	4,429
<i>Debt services:</i>	811,695	811,695	809,991	1,704
<i>Cocurricular Activities:</i>				
Male activities	10,000	10,000	9,441	559
Female activities	10,000	10,000	4,089	5,911
TOTAL EXPENDITURES	<u>945,195</u>	<u>945,195</u>	<u>896,769</u>	<u>48,426</u>
<i>Excess of Revenue Over (Under)</i>				
<i>Expenditures</i>	<u>588,805</u>	<u>588,805</u>	<u>658,421</u>	<u>69,616</u>
<i>OTHER FINANCING SOURCES (USES):</i>				
Transfer in	--	--	--	--
Transfer (out)	(233,895)	(233,895)	(233,895)	--
Sale of surplus property	2,300	2,300	103	(2,197)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(231,595)</u>	<u>(231,595)</u>	<u>(233,792)</u>	<u>(2,197)</u>
 <i>Net Change in Fund Balances</i>	 357,210	 357,210	 424,629	 67,419
FUND BALANCE, Beginning	<u>1,109,756</u>	<u>1,109,756</u>	<u>1,109,756</u>	<u>--</u>
FUND BALANCE, Ending	<u>\$ 1,466,966</u>	<u>\$ 1,466,966</u>	<u>\$ 1,534,385</u>	<u>\$ 67,419</u>

HILL CITY SCHOOL DISTRICT NO. 51-2
REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON SCHEDULE – SPECIAL EDUCATION FUND – BUDGETARY BASIS
JUNE 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
<i>Revenue from Local Sources:</i>				
<i>Taxes:</i>				
Ad valorem taxes	\$ 764,900	\$ 764,900	\$ 802,386	\$ 37,486
Prior years' ad valorem taxes	12,166	12,166	11,950	(216)
Penalties and interest on taxes	2,500	2,500	2,354	(146)
<i>Other revenue from local sources:</i>				
Charges for services	700	700	552	(148)
Revenue in Lieu of Taxes	800	800	12,572	11,772
<i>Revenue from Federal Sources:</i>				
<i>Grants-in-Aid:</i>				
Restricted grants-in-aid	<u>109,035</u>	<u>109,035</u>	<u>94,971</u>	<u>(14,064)</u>
TOTAL REVENUES	<u>890,101</u>	<u>890,101</u>	<u>924,785</u>	<u>34,684</u>
<u>EXPENDITURES</u>				
<i>Instructional Services:</i>				
Programs for special education	549,186	549,186	493,185	56,001
<i>Support Services:</i>				
Health	50,000	50,000	16,525	33,475
Psychological	9,500	9,500	23,658	(14,158)
Speech pathology	56,160	56,160	66,962	(10,802)
Student therapy services	73,215	73,215	50,079	23,136
Business	6,000	6,000	--	6,000
Special education	76,200	76,200	75,538	662
Contingencies	<u>69,840</u>	<u>69,840</u>	<u>--</u>	<u>69,840</u>
TOTAL EXPENDITURES	<u>890,101</u>	<u>890,101</u>	<u>725,947</u>	<u>164,154</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	--	--	198,838	198,838
<i>Net Change in Fund Balance</i>	--	--	198,838	198,838
<i>FUND BALANCE, Beginning</i>	261,587	261,587	261,587	--
<i>FUND BALANCE, Ending</i>	<u>\$ 261,587</u>	<u>\$ 261,587</u>	<u>\$ 460,425</u>	<u>\$ 198,838</u>

HILL CITY SCHOOL DISTRICT NO. 51-2
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019

NOTE 1 – BASIS OF PRESENTATION

The Budgetary Comparison Schedules have been prepared on the modified accrual basis of accounting. The Budgetary Comparison Schedules present capital outlay expenditures within each function while the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds present capital outlay expenditures as a separate function.

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

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

1. Prior to the first regular board meeting in May of each year, the 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 Trust and Agency 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 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.
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.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds. Generally accepted accounting principles prescribe that budgetary information be presented for the General Fund and major special revenue funds of the District.

**HILL CITY SCHOOL DISTRICT NO. 51-2
SCHEDULE OF THE PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (ASSET)
SOUTH DAKOTA RETIREMENT SYSTEM**

	<i>2019</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>2015</i>
District's proportion of the net pension liability (asset)	0.1563179%	0.1618340%	0.1642107%	0.1667829%	0.17695040%
District's proportionate share of net pension liability (asset)	\$ (3,645)	\$ (14,687)	\$ 554,688	\$ (707,374)	\$ (1,274,855)
District's covered-employee payroll	\$ 3,244,769	\$ 3,287,678	\$ 3,076,550	\$ 3,060,634	\$ 3,060,634
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.11%	0.45%	16.87%	23.11%	41.65%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.02%	100.10%	96.89%	104.10%	107.29%

*The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is June 30 of the previous fiscal year.

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

**HILL CITY SCHOOL DISTRICT NO. 51-2
SCHEDULE OF THE SCHOOL DISTRICT CONTRIBUTIONS
SOUTH DAKOTA RETIREMENT SYSTEM**

	<i>2019</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>2015</i>
Contractually-required contribution	\$ 176,996	\$ 194,686	\$ 197,288	\$ 184,593	\$ 183,638
Contributions in relation to the contractually-required contribution	<u>176,996</u>	<u>194,686</u>	<u>197,288</u>	<u>184,593</u>	<u>183,638</u>
Contribution deficiency (excess)	<u>\$ --</u>				
District's covered-employee payroll	\$ 2,949,937	\$ 3,244,769	\$ 3,287,678	\$ 3,076,550	\$ 3,060,634
Contributions as a percentage of employee-covered payroll	6.00%	6.00%	6.00%	6.00%	6.00%

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

SUPPLEMENTARY INFORMATION

HILL CITY SCHOOL DISTRICT NO. 51-2
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

<i>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE</i>	<i>FEDERAL CFDA NUMBER</i>	<i>PASS-THROUGH ENTITY IDENTIFYING NUMBER</i>	<i>FEDERAL EXPENDITURES</i>
<i>U.S. Department of Agriculture:</i>			
<i>Pass through Pennington County</i>			
Schools and Roads - Grants to State (Note 4)	10.665	--	151,865
<i>Pass through the S.D. Department of Education</i>			
<i>Child Nutrition Cluster:</i>			
<i>Non-Cash Assistance (Commodities):</i>			
National School Lunch Program	10.555	NSLP-17-139	\$ 10,418
<i>Cash Assistance:</i>			
School Breakfast Program (Note 4)	10.553	--	23,188
National School Lunch Program (Note 4)	10.555	NSLP-17-139	69,574
Summer Food Service Program for Children	10.559	--	5,866
Total Child Nutrition Cluster			<u>109,046</u>
<i>Total U.S. Department of Agriculture</i>			<u>260,911</u>
<i>U.S. Department of Education:</i>			
Impact Aid	84.041	--	734,674
<i>Pass through the S.D. Department of Education:</i>			
Title I Grants to Local Educational Agencies	84.010	S010A170041	101,530
Rural Education	84.358	--	37,790
Supporting Effective Instruction State Grant	84.367	S367A170039	7,836
Student Support and Academic Enrichment Program	84.424	S424A170043	15,614
Homeland Security Grant Program	97.067	--	16,153
<i>Special Education Cluster:</i>			
Special Education Grants to States	84.027	H027A270091	94,236
Special Education - Preschool Grants	84.173	H173A170091	735
Total Special Education Cluster			<u>94,971</u>
<i>Total U.S. Department of Education</i>			<u>1,008,568</u>
GRAND TOTAL			<u><u>\$ 1,269,479</u></u>

HILL CITY SCHOOL DISTRICT NO. 51-2
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019
(CONTINUED)

1. BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Hill City School District No. 51-2 under programs of the federal government for the year ended JUNE 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Hill City School District No. 51-2, it is not intended to and does not present the financial position, changes in net position, or cash flows of Hill City School District No. 51-2.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

3. INDIRECT COST RATE:

Hill City School District does not use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

4. FEDERAL REIMBURSEMENTS:

Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received rather than federal expenditures.

*HILL CITY SCHOOL DISTRICT NO. 51-2
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2019*

Board Members:

**Owen Wiederhold – President
Greg Schroeder
Dennis Krull
Angela Ross
Carmen Ronish**

Superintendent:

Mike Hanson

Business Manager:

Anjar Voorhees