

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

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

JUNE 30, 2022

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

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INDEPENDENT AUDITOR'S REPORT

To the School Board
Hot Springs School District No. 23-2
Fall River County, South Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Hot Springs School District No. 23-2 (the School District)** as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

Basis for Opinions

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

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Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards are 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 May 31, 2023, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Wohlschlag Ritzman + Co., LLC

Yankton, South Dakota
May 31, 2023

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

STATEMENT OF NET POSITION

JUNE 30, 2022

| | Primary Government | | |
|---|----------------------------|---------------------------------|---------------|
| | Governmental Activities | Business- Type Activities | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 5,454,062 | \$ 128,606 | \$ 5,582,668 |
| Investments | 5,061,529 | - | 5,061,529 |
| Accounts receivable, net of allowance | 6,166 | - | 6,166 |
| Taxes receivable | 2,090,941 | - | 2,090,941 |
| Due from other governments | 820,487 | - | 820,487 |
| Internal balances | (16,201) | 16,201 | - |
| Due from custodial fund | 50,207 | - | 50,207 |
| Prepaid expenses | 29,606 | - | 29,606 |
| Net pension asset | 1,363,223 | 9,334 | 1,372,557 |
| Capital assets: | | | |
| Not being depreciated | 1,056,567 | - | 1,056,567 |
| Being depreciated, net of depreciation | 7,060,489 | 11,162 | 7,071,651 |
| Total capital assets | 8,117,056 | 11,162 | 8,128,218 |
| Total assets | 22,977,076 | 165,303 | 23,142,379 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension related deferred outflows | 1,916,844 | 13,142 | 1,929,986 |
| LIABILITIES | | | |
| Accounts payable | 114,582 | - | 114,582 |
| Contracts payable | 481,740 | 1,358 | 483,098 |
| Accrued expenses | 166,140 | 579 | 166,719 |
| Unearned revenue | - | 18,816 | 18,816 |
| Long-term liabilities: | | | |
| Portion due or payable within one year: | | | |
| Debt payable | 330,356 | - | 330,356 |
| Compensated absences | 17,590 | - | 17,590 |
| Portion due or payable after one year: | | | |
| Debt payable | 6,269,996 | - | 6,269,996 |
| Compensated absences | 26,384 | - | 26,384 |
| Total liabilities | 7,406,788 | 20,753 | 7,427,541 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pension related deferred inflows | 2,633,646 | 18,035 | 2,651,681 |
| Taxes levied for future period | 2,469,911 | - | 2,469,911 |
| Total deferred inflows of resources | 5,103,557 | 18,035 | 5,121,592 |
| NET POSITION | | | |
| Net investment in capital assets | 1,516,704 | 11,162 | 1,527,866 |
| Restricted for: | | | |
| Capital outlay | 2,859,881 | - | 2,859,881 |
| Special education | 527,361 | - | 527,361 |
| Debt service | 1,861,806 | - | 1,861,806 |
| Capital projects | 3,273,762 | - | 3,273,762 |
| SDRS pension purposes | 646,421 | 4,441 | 650,862 |
| Unrestricted | 1,697,640 | 124,054 | 1,821,694 |
| Total net position | \$ 12,383,575 | \$ 139,657 | \$ 12,523,232 |

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|--------------------------------------|---------------------|-------------------------|--|--|--|-----------------------------|----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Governmental activities: | | | | | | | |
| Instruction | \$ 4,041,729 | \$ - | \$ 1,195,654 | \$ - | \$ (2,846,075) | | \$ (2,846,075) |
| Support services | 3,084,447 | 18,004 | 512,423 | - | (2,554,020) | | (2,554,020) |
| Cocurricular activities | 485,254 | 31,174 | - | - | (454,080) | | (454,080) |
| Interest and fiscal charges | 199,267 | - | - | - | (199,267) | | (199,267) |
| Total governmental activities | <u>7,810,697</u> | <u>49,178</u> | <u>1,708,077</u> | <u>-</u> | <u>(6,053,442)</u> | | <u>(6,053,442)</u> |
| Business-type activities: | | | | | | | |
| Food service | <u>332,392</u> | <u>20,950</u> | <u>383,600</u> | <u>1,000</u> | | \$ 73,158 | 73,158 |
| Total Business-type activities: | <u>332,392</u> | <u>20,950</u> | <u>383,600</u> | <u>1,000</u> | | <u>73,158</u> | <u>73,158</u> |
| Total School District | <u>\$ 8,143,089</u> | <u>\$ 70,128</u> | <u>\$ 2,091,677</u> | <u>\$ 1,000</u> | <u>(6,053,442)</u> | <u>73,158</u> | <u>(5,980,284)</u> |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes | | | | | 4,777,486 | - | 4,777,486 |
| Gross receipts tax | | | | | 209,838 | - | 209,838 |
| Revenue from state sources: | | | | | | | |
| State aid | | | | | 2,346,230 | - | 2,346,230 |
| Other | | | | | 60,236 | - | 60,236 |
| Revenue from federal sources | | | | | 300,099 | - | 300,099 |
| Earnings on investments | | | | | 4,546 | - | 4,546 |
| Miscellaneous | | | | | 119,895 | - | 119,895 |
| Gain on sale of property | | | | | 11,360 | - | 11,360 |
| Total general revenues and transfers | | | | | <u>7,829,690</u> | <u>-</u> | <u>7,829,690</u> |
| Change in net position | | | | | 1,776,248 | 73,158 | 1,849,406 |
| Net position - beginning | | | | | <u>10,607,327</u> | <u>66,499</u> | <u>10,673,826</u> |
| Net position - ending | | | | | <u>\$ 12,383,575</u> | <u>\$ 139,657</u> | <u>\$ 12,523,232</u> |

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2022

| | Major Funds | | | | Non-major | |
|---|-----------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| | Special Revenue Funds | | | Debt | Capital | Total |
| | General | Capital Outlay | Special Education | Service Fund | Projects Fund | Governmental Funds |
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 2,311,405 | \$ 2,629,393 | \$ 500,015 | \$ - | \$ 13,249 | \$ 5,454,062 |
| Investments | - | - | - | 1,833,610 | 3,227,919 | 5,061,529 |
| Accounts receivable, net of allowance | 6,166 | - | - | - | - | 6,166 |
| Taxes receivable | 1,027,162 | 652,434 | 411,345 | - | - | 2,090,941 |
| Due from other governments | 540,668 | 102,767 | 177,052 | - | - | 820,487 |
| Due from other funds | - | 436,775 | 16,066 | 28,196 | 32,594 | 513,631 |
| Due from fiduciary funds | 50,207 | - | - | - | - | 50,207 |
| Prepaid expenses | 29,606 | - | - | - | - | 29,606 |
| Total assets | <u>\$ 3,965,214</u> | <u>\$ 3,821,369</u> | <u>\$ 1,104,478</u> | <u>\$ 1,861,806</u> | <u>\$ 3,273,762</u> | <u>\$ 14,026,629</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 109,428 | \$ 8,452 | \$ (3,298) | \$ - | \$ - | \$ 114,582 |
| Contracts payable | 433,653 | - | 48,087 | - | - | 481,740 |
| Due to other funds | 529,832 | - | - | - | - | 529,832 |
| Accrued expenses | 134,156 | - | 31,984 | - | - | 166,140 |
| Total liabilities | <u>1,207,069</u> | <u>8,452</u> | <u>76,773</u> | <u>-</u> | <u>-</u> | <u>1,292,294</u> |
| Deferred Inflows of Resources: | | | | | | |
| Unavailable revenue - property taxes | 44,862 | 23,662 | 14,088 | - | - | 82,612 |
| Taxes levied for future period | 1,214,182 | 769,473 | 486,256 | - | - | 2,469,911 |
| Total deferred inflows of resources | <u>1,259,044</u> | <u>793,135</u> | <u>500,344</u> | <u>-</u> | <u>-</u> | <u>2,552,523</u> |
| Fund balances: | | | | | | |
| Nonspendable: | | | | | | |
| Prepaid expenses | 29,606 | - | - | - | - | 29,606 |
| Restricted: | | | | | | |
| Capital outlay | - | 2,859,881 | - | - | - | 2,859,881 |
| Special education | - | - | 527,361 | - | - | 527,361 |
| Debt service | - | - | - | 1,861,806 | - | 1,861,806 |
| Capital projects | - | - | - | - | 3,273,762 | 3,273,762 |
| Unassigned | 1,469,495 | 159,901 | - | - | - | 1,629,396 |
| Total fund balances | <u>1,499,101</u> | <u>3,019,782</u> | <u>527,361</u> | <u>1,861,806</u> | <u>3,273,762</u> | <u>10,181,812</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 3,965,214</u> | <u>\$ 3,821,369</u> | <u>\$ 1,104,478</u> | <u>\$ 1,861,806</u> | <u>\$ 3,273,762</u> | <u>\$ 14,026,629</u> |

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2022**

Total fund balances for governmental funds \$ 10,181,812

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

| | | |
|---|----------------|-----------|
| Land | \$ 321,027 | |
| Buildings, net of \$3,443,831 accumulated depreciation | 6,062,789 | |
| Improvements, net of \$279,102 accumulated depreciation | 104,248 | |
| Equipment, net of \$1,806,606 accumulated depreciation | 893,452 | |
| Construction in progress | <u>735,540</u> | |
| Total capital assets | | 8,117,056 |

Some of the School District's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows of resources in the funds. 82,612

Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds. 1,363,223

Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds. 1,916,844

Long-term liabilities applicable to the School District's governmental activities are not due and payable in current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position. Those liabilities consist of:

| | | |
|-----------------------------|---------------|-------------|
| Long-term debt payable | 6,437,654 | |
| Premium on long-term debt | 65,288 | |
| Discount on long-term debt | (11,930) | |
| Financed acquisition | 109,340 | |
| Compensated absences | <u>43,974</u> | |
| Total long-term liabilities | | (6,644,326) |

Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds. (2,633,646)

Total net position of governmental activities \$ 12,383,575

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2022

| | Major Funds | | | | Non-major | |
|---|--------------|-----------------------|-------------------|--------------|---------------|--------------------|
| | | Special Revenue Funds | | Debt | Capital | Total |
| | General | Capital Outlay | Special Education | Service Fund | Projects Fund | Governmental Funds |
| REVENUES | | | | | | |
| Local sources: | | | | | | |
| Taxes | \$ 2,546,637 | \$ 1,499,212 | \$ 929,280 | \$ - | \$ - | \$ 4,975,129 |
| Interest | 404 | - | - | 1,512 | 2,630 | 4,546 |
| Cocurricular activities | 31,174 | - | - | - | - | 31,174 |
| Other local revenue | 37,471 | - | 3,310 | - | - | 40,781 |
| Intergovernmental: | | | | | | |
| County sources | 97,118 | - | - | - | - | 97,118 |
| State sources | 2,406,466 | - | - | - | - | 2,406,466 |
| Federal sources | 731,005 | 1,091,159 | 186,012 | - | - | 2,008,176 |
| Total revenues | 5,850,275 | 2,590,371 | 1,118,602 | 1,512 | 2,630 | 9,563,390 |
| EXPENDITURES | | | | | | |
| Instruction: | | | | | | |
| Regular programs | 2,829,797 | 276,814 | - | - | - | 3,106,611 |
| Special programs | 256,059 | 900 | 624,228 | - | - | 881,187 |
| Support services: | | | | | | |
| Students | 149,728 | - | 188,244 | - | - | 337,972 |
| Instructional staff | 247,995 | 47,605 | 40,064 | - | - | 335,664 |
| General administration | 185,327 | 10,400 | - | - | - | 195,727 |
| School administration | 387,933 | 1,107 | - | - | - | 389,040 |
| Business | 1,273,173 | 416,155 | - | - | - | 1,689,328 |
| Central | 7,834 | - | - | - | - | 7,834 |
| Special education | - | - | 173,418 | - | - | 173,418 |
| Cocurricular activities: | | | | | | |
| Male activities | 124,674 | 23,695 | - | - | - | 148,369 |
| Female activities | 116,359 | 7,744 | - | - | - | 124,103 |
| Transportation | 24,333 | - | - | - | - | 24,333 |
| Combined activities | 146,138 | 110 | - | - | - | 146,248 |
| Community services: | | | | | | |
| Civic services | - | - | - | - | - | - |
| Debt service: | | | | | | |
| Principal | - | 193,449 | - | - | - | 193,449 |
| Interest and fiscal charges | - | 185,055 | - | - | - | 185,055 |
| Issuance costs | - | 11,826 | - | - | - | 11,826 |
| Capital outlay | - | 427,165 | - | - | 692,843 | 1,120,008 |
| Total expenditures | 5,749,350 | 1,602,025 | 1,025,954 | - | 692,843 | 9,070,172 |
| Excess (deficiency) of revenues over expenditures | | | | | | |
| | 100,925 | 988,346 | 92,648 | 1,512 | (690,213) | 493,218 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | - | 3,950 | - | 161,765 | 3,931,381 | 4,097,096 |
| Transfers out | (3,950) | (4,093,146) | - | - | - | (4,097,096) |
| Capital outlay certificate issued | - | 3,160,000 | - | - | - | 3,160,000 |
| Premium on debt issued | - | 104,788 | - | - | - | 104,788 |
| Discount on debt issued | - | (39,500) | - | - | - | (39,500) |
| Sale of surplus property | - | 35,462 | - | - | - | 35,462 |
| Total other financing sources (uses) | (3,950) | (828,446) | - | 161,765 | 3,931,381 | 3,260,750 |
| Net change in fund balances | 96,975 | 159,900 | 92,648 | 163,277 | 3,241,168 | 3,753,968 |
| Fund balances - beginning | 1,402,126 | 2,859,882 | 434,713 | 1,698,529 | 32,594 | 6,427,844 |
| Prior period adjustment | - | - | - | - | - | - |
| Fund balances - beginning - restated | 1,402,126 | 2,859,882 | 434,713 | 1,698,529 | 32,594 | 6,427,844 |
| Fund balances - ending | \$ 1,499,101 | \$ 3,019,782 | \$ 527,361 | \$ 1,861,806 | \$ 3,273,762 | \$ 10,181,812 |

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

**RECONCILIATION OF STATEMENT OF THE REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022**

| | |
|--|--------------|
| Net change in fund balances - total governmental funds | \$ 3,753,968 |
|--|--------------|

The change in net position reported for governmental activities in the statement of activities is different because:

| | |
|--|---------|
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$1,120,008) exceeded depreciation (\$351,672) in the current period. | 768,336 |
|--|---------|

| | |
|---|--------|
| In both the government wide and fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the fund's statement differs from the accounting in the government wide statements in that the fund financial statements require the amounts to be "available". This amount reflects the application of both the application period and "availability criteria". | 12,195 |
|---|--------|

| | |
|---|----------|
| In the statement of activities, gains and losses (\$24,102) on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds (\$35,462) from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized. | (24,102) |
|---|----------|

| | |
|---|---------|
| Expenses in the statement of activities that do not use current financial resources are not reported as expenses in the funds. This adjustment is the reduction in pension expense related to the South Dakota Retirement System (SDRS) pension plan. In addition, changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds. | 302,321 |
|---|---------|

| | |
|--|-------------|
| The issuance of long-term debt is an other financing source in the fund statements but an increase in long-term liabilities on the government wide statements. | (3,225,288) |
|--|-------------|

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

| | | |
|-----------------------|------------|---------|
| Repayments: | | |
| Long-term debt | \$ 193,449 | |
| Accretion of discount | (2,386) | |
| | | 191,063 |

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment is the net change the following:

| | | |
|----------------------|---------|---------|
| Compensated absences | (2,245) | |
| Total | | (2,245) |

| | |
|---|---------------------|
| Change in net position of governmental activities | \$ <u>1,776,248</u> |
|---|---------------------|

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2022**

| | Enterprise Fund Major Fund Food Service |
|---------------------------------------|--|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 128,606 |
| Due from other funds | <u>16,201</u> |
| Total current assets | <u>144,807</u> |
| Noncurrent assets: | |
| Net pension asset | 9,334 |
| Capital assets: | |
| Machinery and equipment | 155,230 |
| Less accumulated depreciation | <u>(144,068)</u> |
| Total noncurrent assets | <u>20,496</u> |
| Total assets | <u>165,303</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pension related deferred outflows | <u>13,142</u> |
| LIABILITIES | |
| Current liabilities: | |
| Accrued expenses | 579 |
| Contracts payable | 1,358 |
| Unearned revenue | <u>18,816</u> |
| Total current liabilities | <u>20,753</u> |
| Total liabilities | <u>20,753</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Pension related deferred inflows | <u>18,035</u> |
| NET POSITION | |
| Investment in capital assets | 11,162 |
| SDRS pension purposes | 4,441 |
| Unrestricted | <u>124,054</u> |
| Total net position | <u>\$ 139,657</u> |

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2022**

| | Enterprise Fund Major Fund Food Service |
|---|--|
| OPERATING REVENUES | |
| Charges for goods and services | \$ 20,950 |
| Total operating revenues | <u>20,950</u> |
| OPERATING EXPENSES | |
| Salaries and employee benefits | 146,179 |
| Purchased services | 4,273 |
| Cost of materials | 2,847 |
| Cost of sales - purchases | 149,663 |
| Cost of sales - donated food | 22,112 |
| Miscellaneous | 2,679 |
| Depreciation | <u>4,639</u> |
| Total operating expenses | <u>332,392</u> |
| Operating (loss) | <u>(311,442)</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| State sources: | |
| Cash reimbursements | 746 |
| Federal sources: | |
| Cash reimbursements | 366,990 |
| Donated food | <u>15,864</u> |
| Total nonoperating revenues | <u>383,600</u> |
| Income (loss) before contributions, special items, extraordinary items and transfers | 72,158 |
| Capital contributions | <u>1,000</u> |
| Change in net position | 73,158 |
| Total net position - beginning | <u>66,499</u> |
| Total net position - ending | <u>\$ 139,657</u> |

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2022**

| | Enterprise Fund Nonmajor Fund Food Service |
|--|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from customers | \$ 39,766 |
| Payments to suppliers | (167,830) |
| Payments to employees | <u>(148,867)</u> |
| Net cash provided by (used in) operating activities | <u>(276,931)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Cash reimbursements - state sources | 746 |
| Cash reimbursements - federal sources | <u>382,828</u> |
| Net cash provided by (used in) noncapital financing activities | <u>383,574</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Capital contribution | 1,000 |
| Purchase of capital assets | <u>(1,000)</u> |
| Net cash provided by (used in) capital and related financing activities | <u>-</u> |
| Net change in cash and cash equivalents | 106,643 |
| Balances - beginning of year | <u>21,963</u> |
| Balances - end of year | <u>\$ 128,606</u> |
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES | |
| Value of commodities received | <u>\$ 15,864</u> |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | |
| Operating (loss) | \$ (311,442) |
| Adjustments to reconcile operating (loss) to net cash (used in) operating activities: | |
| Depreciation | 4,639 |
| Value of donated commodities used | 15,864 |
| Change in assets and liabilities: | |
| (Increase) decrease in: | |
| Pension related asset | (2,070) |
| Increase (decrease) in: | |
| Accounts payable | (2,120) |
| Accrued expenses | 179 |
| Contracts payable | (797) |
| Unearned revenue | <u>18,816</u> |
| Net cash provided by (used in) operating activities | <u>\$ (276,931)</u> |

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2022**

| | Custodial Funds | Private-Purpose Trust Funds | Total |
|-------------------------------|----------------------------|--|-------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 233,585 | \$ 51,893 | \$ 285,478 |
| Total assets | <u>233,585</u> | <u>51,893</u> | <u>285,478</u> |
| LIABILITIES | | | |
| Accounts payable | 216 | - | 216 |
| Due to general fund | 50,207 | - | 50,207 |
| Advance from general fund | <u>25,000</u> | <u>-</u> | <u>25,000</u> |
| Total liabilities | <u>75,423</u> | <u>-</u> | <u>75,423</u> |
| NET POSITION | | | |
| Restricted for: | | | |
| Individuals and organizations | 158,162 | - | 158,162 |
| Scholarships | <u>-</u> | <u>51,893</u> | <u>51,893</u> |
| Total net position | <u>\$ 158,162</u> | <u>\$ 51,893</u> | <u>\$ 210,055</u> |

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2022

| | <u>Custodial Funds</u> | <u>Private Purpose Trust Funds</u> | <u>Total</u> |
|------------------------------------|----------------------------|--|-------------------|
| ADDITIONS: | | | |
| Donations | \$ - | \$ 746 | \$ 746 |
| Collections for student activities | <u>260,656</u> | <u>-</u> | <u>260,656</u> |
| Total additions | <u>260,656</u> | <u>746</u> | <u>261,402</u> |
| DEDUCTIONS: | | | |
| Payments for student activities | 237,226 | - | 237,226 |
| Trust deductions for scholarships | <u>-</u> | <u>1,040</u> | <u>1,040</u> |
| Total deductions | <u>237,226</u> | <u>1,040</u> | <u>238,266</u> |
| Change in net position | 23,430 | (294) | 23,136 |
| Net position - beginning | <u>134,732</u> | <u>52,187</u> | <u>186,919</u> |
| Net position - ending | <u>\$ 158,162</u> | <u>\$ 51,893</u> | <u>\$ 210,055</u> |

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District conform to generally accepted accounting principles as applicable to government entities in the United States of America (US GAAP).

Reporting Entity

The reporting entity of Hot Springs School District No. 23-2 (the School District) consists of the primary government, which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity; those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The School District is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the School District (primary government). The School District may also be financially accountable for another organization if that organization is fiscally dependent on the School District.

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

Basis of Presentation

Government-wide Financial Statements:

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or 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, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the School District or it meets the following criteria:

1. Total assets, liabilities, 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, liabilities, 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 can elect 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.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

The fund types of the School District financial reporting entity are described below:

Governmental Funds:

General Fund – A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the School District, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

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

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

Debt Service Funds – Debt service funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs.

Debt Service Fund – A fund established to account for the accumulation of resources to meet debt sinking fund requirements related to the 2012 Capital Outlay Certificates. This is a major fund.

Capital Projects Funds – Capital projects funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

Shop Building Fund – The Shop Building Fund is the only capital projects fund maintained by the School District. This is not a major fund.

Proprietary Funds:

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

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

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

Fiduciary Funds:

Fiduciary funds consist of the following sub-categories and are never considered to be major funds:

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

Custodial Funds – Custodial funds are used to report fiduciary activities that are not required to be reported in pension trust funds, investment trust funds, or private-purpose trust funds. The School District holds assets as an agent in a trustee capacity for various classes, clubs and other such purposes.

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.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus and Basis of Accounting, continued

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 fund types.

Basis of Accounting:

Government-wide Financial Statements:

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

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the School District, the length of that cycle is 60 days. The revenues accrued at June 30, 2022 are property taxes and federal grants.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus and Basis of Accounting, continued

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. 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 generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

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

Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

Cash and Cash Equivalents

The School District pools its cash resources for depositing and investing purposes. Accordingly, the enterprise funds have access to their cash resources on demand. Accordingly, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows. Certificates of deposit, regardless of maturity, are not considered to be cash equivalents.

Investments

Investments are reported at fair value based on the framework established by Governmental Accounting Standards Board.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets

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

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

Government-wide Financial Statements:

All purchased capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their acquisition value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

The total June 30, 2022 balance of capital assets for governmental activities includes approximately 20 percent for which the values were determined by estimates of the original costs. The total June 30, 2022 balance of capital assets for business-type activities includes approximately 5 percent for which the values were determined by estimates of the original cost. These estimated original costs were established by deflated current replacement cost.

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets, continued

| | Capitalization Threshold | Depreciation Method | Estimated Useful Life |
|-------------------------------|-----------------------------|------------------------|--------------------------|
| Land | \$ 5,000 | - | - |
| Buildings | \$ 5,000 | Straight-line | 50 years |
| Improvements | \$ 5,000 | Straight-line | 20 years |
| Equipment (government-wide) | \$ 5,000 | Straight-line | 3 - 15 years |
| Equipment (proprietary funds) | \$ 1,000 | Straight-line | 3 - 15 years |

Land, an inexhaustible capital asset, is not depreciated.

Fund Financial Statements

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

Long-Term Liabilities

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of compensated absences, capital outlay certificates payable, and financed acquisitions.

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 in the fund statements as in the government-wide statements.

Deferred Inflows and Outflows of Resources

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Deferred Inflows and Outflows of Resources, continued

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

Pension

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

Program Revenues

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

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's 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.

Equity Classifications

Government-wide Financial Statements:

Equity is classified as Net Position and is displayed in three components

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and is distinguished between Nonspendable, Restricted, Committed, Assigned or Unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net position held in trust for other purposes.

Application of Net Position

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Balance Classification Policies and Procedures

In accordance with Government Accounting Standards Board (GASB), the School District classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Business Manager.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

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

Property Taxes

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

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022

2. DEPOSITS AND INVESTMENTS

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

Deposits - The School District 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.

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

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial risk. As of June 30, 2022, the School District's deposits were fully insured or collateralized and were not exposed to custodial credit risk.

Investments

As of June 30, 2022, the School District had the following investments:

| Investment Type | Credit Rating | Fair Value | Maturity |
|---------------------|------------------|---------------|----------|
| SD FIT Money Market | - | \$ 5,061,529 | N/A |

The South Dakota Fund Investment Trust (SD FIT) is an external investment pool created for South Dakota local government investing purposes. It is regulated by a nine-member board with representation from municipalities, school districts, and counties. The net asset value of SD FIT money market account is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022

2. DEPOSITS AND INVESTMENTS, continued

Fair Value Measurement

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The School District uses Level 2 inputs for recurring fair value measurements as of June 30, 2022.

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

Authorized Investments by the School District – The School District does not have a formal investment policy that further limits investments beyond those imposed by statutes.

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

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

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 School District's policy is to credit all income from investments to fund making the investment.

3. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year. Allowance for uncollectible accounts receivable, if any, are calculated based on historical trend data. For the year ended June 30, 2022, the allowance for doubtful accounts totaled \$ -0-.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022

4. CAPITAL ASSETS

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-------------------|--------------------|---------------------|
| <i>Governmental Activities:</i> | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 321,027 | \$ - | \$ - | \$ 321,027 |
| Construction in progress | 32,594 | 702,946 | - | 735,540 |
| Total capital assets not being depreciated | 353,621 | 702,946 | - | 1,056,567 |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings | 9,312,234 | 194,386 | - | 9,506,620 |
| Improvements | 383,350 | - | - | 383,350 |
| Equipment | 2,761,379 | 222,676 | (283,997) | 2,700,058 |
| Total capital assets being depreciated | 12,456,963 | 417,062 | (283,997) | 12,590,028 |
| <i>Less accumulated depreciation for:</i> | | | | |
| Buildings | 3,260,935 | 182,896 | - | 3,443,831 |
| Improvements | 270,758 | 8,344 | - | 279,102 |
| Equipment | 1,906,069 | 160,432 | (259,895) | 1,806,606 |
| Total accumulated depreciation | 5,437,762 | 351,672 | (259,895) | 5,529,539 |
| Total capital assets being depreciated, net | 7,019,201 | 65,390 | (24,102) | 7,060,489 |
| <i>Capital assets, net - Governmental Activities</i> | <u>\$ 7,372,822</u> | <u>\$ 768,336</u> | <u>\$ (24,102)</u> | <u>\$ 8,117,056</u> |

Governmental activities' depreciation expense was charged to functions as follows:

| | |
|-------------------------|---------------|
| Instruction | \$ 203,970 |
| Support Services | 105,501 |
| Cocurricular Activities | <u>42,201</u> |

Total Depreciation Expense - Governmental Activities \$ 351,672

Construction Work-in Progress as of June 30, 2022 is composed of the following:

| Project Name | Project Authorization | Expended thru 6/30/2022 | Funding Source | Required Future Financing |
|----------------------------|--------------------------|-------------------------------|---------------------|---------------------------------|
| CTE & Lab Facility Project | <u>\$ 6,250,000</u> | <u>\$ 735,540</u> | <u>\$ 3,160,000</u> | <u>\$ 2,354,460</u> |

Required future funding will be provided through existing and future Capital Outlay Fund reserves.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022

4. CAPITAL ASSETS, continued

A summary of changes in business-type activities' capital assets for the year ended June 30, 2022, is as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|-------------------|-------------|-------------------|
| <i>Business-Type Activities:</i> | | | | |
| <i>Capital assets being depreciated:</i> | | | | |
| Equipment | \$ 154,230 | \$ 1,000 | \$ - | \$ 155,230 |
| Total capital assets being depreciated | 154,230 | 1,000 | - | 155,230 |
| Less accumulated depreciation for: | | | | |
| Equipment | 139,429 | 4,639 | - | 144,068 |
| Total accumulated depreciation | 139,429 | 4,639 | - | 144,068 |
| <i>Capital assets, net - Business-Type Activities</i> | <u>\$ 14,801</u> | <u>\$ (3,639)</u> | <u>\$ -</u> | <u>\$ 11,162</u> |

Business-type activities' depreciation expense was charged to functions as follows:

| | |
|-------------------|-----------------|
| Food Service Fund | <u>\$ 4,639</u> |
|-------------------|-----------------|

5. LONG-TERM LIABILITIES

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

| | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
|---|----------------------|---------------------|---------------------|---------------------|------------------------|
| <i>Governmental Activities:</i> | | | | | |
| Capital outlay certificates-Series 2018 | \$ 315,000 | \$ - | \$ (105,000) | \$ 210,000 | \$ 105,000 |
| General obligation certificates-Series 2021 | - | 3,160,000 | - | 3,160,000 | 135,000 |
| Qualified school construction | 2,750,000 | - | - | 2,750,000 | - |
| Lighting project bonds | 381,223 | - | (63,569) | 317,654 | 63,569 |
| Financed acquisition | 134,220 | - | (24,880) | 109,340 | 25,825 |
| Total debt payable | 3,580,443 | 3,160,000 | (193,449) | 6,546,994 | 329,394 |
| QZAB discount | (14,316) | - | 2,386 | (11,930) | (2,386) |
| G.O. Certificates premium | - | 65,288 | - | 65,288 | 3,348 |
| Debt payable, net | 3,566,127 | 3,225,288 | (191,063) | 6,600,352 | 330,356 |
| Compensated absences | 41,729 | 21,291 | (19,046) | 43,974 | 17,590 |
| <i>Total Governmental Activities</i> | <u>3,607,856</u> | <u>3,246,579</u> | <u>(210,109)</u> | <u>6,644,326</u> | <u>347,946</u> |
| <i>Total Primary Government</i> | <u>\$ 3,607,856</u> | <u>\$ 3,246,579</u> | <u>\$ (210,109)</u> | <u>\$ 6,644,326</u> | <u>\$ 347,946</u> |

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022

5. LONG-TERM LIABILITIES, continued

The capital outlay certificates were issued as Limited Tax General Obligation Certificates, Series 2018, maturing in August 2024. Interest rates range from 2.00% to 2.45% depending on length to maturity. Payments are made from the Capital Outlay Fund.

The Qualified School Construction Bonds are due in a lump in 2027. Interest rate is 5.25% and is due semi-annually from the Capital Outlay Fund. Sinking fund provisions on the Qualified School Construction Bonds require semi-annual deposits of \$80,882 on or before March 1 and September 1 of each year through 2027, during which the fund will continue to earn interest until maturity of the debt on September 1, 2027.

The lighting project bonds were funded through a non-interest bearing note payable through the State of South Dakota. It calls for annual principal payments of \$63,569 through 2026. Payments are made from the Capital Outlay Fund.

The financed acquisition is related to the School purchasing 2 buses beginning in 2021 five years. The total cost of the equipment was \$164,400 with annual payments due in December of each year in the amount of \$29,980. Payments are made from the Capital Outlay Fund.

The capital outlay certificates were issued as Limited Tax General Obligation Certificates, Series 2021, maturing in 2042, with an interest rate of 2.00%. Payments are made from the Capital Outlay Fund.

Compensated absences for governmental activities typically have been liquidated from the General Fund and Special Education Fund.

The annual requirements to amortize long-term debt outstanding as of June 30, 2022, except for compensated absences are as follows:

| Year Ending June 30, | Total Debt Payable | | |
|-------------------------|---------------------|---------------------|---------------------|
| | Principal | Interest | Total |
| 2023 | \$ 330,356 | \$ 216,522 | \$ 546,878 |
| 2024 | 326,338 | 211,815 | 538,153 |
| 2025 | 227,356 | 203,080 | 430,436 |
| 2026 | 233,414 | 199,272 | 432,686 |
| 2027 | 2,954,340 | 195,375 | 3,149,715 |
| 2028 - 2032 | 761,740 | 283,438 | 1,045,178 |
| 2023 - 2037 | 841,740 | 132,850 | 974,590 |
| 2038 - 2042 | 925,068 | 46,200 | 971,268 |
| Total | <u>\$ 6,600,352</u> | <u>\$ 1,488,552</u> | <u>\$ 8,088,904</u> |

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS **JUNE 30, 2022**

6. INDIVIDUAL INTERFUND TRANSACTIONS

A summary of amounts due from and due to other funds as of June 30, 2022, is as follows:

| | Due From | Due To |
|---------------------------------------|-------------------|-------------------|
| <i>Governmental activities:</i> | | |
| General Fund: | | |
| Capital Outlay Fund | \$ - | \$ 497,565 |
| Special Education Fund | - | 16,066 |
| Food Service Fund | - | 16,201 |
| | <u>-</u> | <u>529,832</u> |
| Capital Outlay Fund: | | |
| General Fund | 497,565 | - |
| Debt Service Fund | - | 28,196 |
| Capital Projects | - | 32,594 |
| | <u>497,565</u> | <u>60,790</u> |
| Special Education Fund: | | |
| General Fund | 16,066 | - |
| | <u>16,066</u> | <u>-</u> |
| Debt Service Fund: | | |
| Capital Outlay Fund | 28,196 | - |
| | <u>28,196</u> | <u>-</u> |
| Capital Project Fund: | | |
| Capital Outlay Fund | 32,594 | - |
| | <u>32,594</u> | <u>-</u> |
| <i>Total governmental activities</i> | <u>574,421</u> | <u>590,622</u> |
| <i>Business-Type activities:</i> | | |
| Food Service Fund: | | |
| General Fund | 16,201 | - |
| | <u>16,201</u> | <u>-</u> |
| <i>Total business-type activities</i> | <u>16,201</u> | <u>-</u> |
| | <u>\$ 590,622</u> | <u>\$ 590,622</u> |

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022

6. INDIVIDUAL INTERFUND TRANSACTIONS, continued

Interfund transfers for the year ended June 30, 2022, were as follows:

| | Transfers From | Transfers To |
|--------------------------------------|---------------------|---------------------|
| <i>Governmental activities:</i> | | |
| General Fund: | | |
| Capital Outlay Fund | \$ - | \$ 3,950 |
| | <u>-</u> | <u>3,950</u> |
| Capital Outlay Fund: | | |
| General Fund | 3,950 | - |
| Debt Service Fund | - | 161,765 |
| Capital Projects | - | 3,931,381 |
| | <u>3,950</u> | <u>4,093,146</u> |
| Capital Projects Fund: | | |
| Capital Outlay Fund | <u>3,931,381</u> | <u>-</u> |
| Debt Service Fund: | | |
| Capital Outlay Fund | <u>161,765</u> | <u>-</u> |
| <i>Total governmental activities</i> | <u>4,097,096</u> | <u>4,097,096</u> |
| <i>Total primary government</i> | <u>\$ 4,097,096</u> | <u>\$ 4,097,096</u> |

The transfer from the General Fund to the Capital Outlay Fund was to properly account for debt issuance costs. The transfer from the Capital Outlay Fund to the Debt Service Fund is required by a debt covenant with the Qualified School Construction Bonds. The transfers from the Capital Outlay Fund to the Capital Projects Fund were to account for capital project purchases, and to account for the proceeds of the Limited Tax Capital Outlay Certificates, Series 2021, and related Premium.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022

7. RESTRICTED NET POSITION

The following table shows the net position restricted for other purposes as shown on the Statement of Net Position:

| Purpose | Restricted By | Amount |
|-------------------------------|------------------|---------------------|
| Capital Outlay Fund | Law | \$ 2,859,881 |
| Special Education Fund | Law | 527,361 |
| Debt Service Fund | Covenant | 1,861,806 |
| Capital Projects Fund | Law | 3,273,762 |
| SDRS Pension Related Assets | Law | 650,862 |
| Total Restricted Net Position | | <u>\$ 9,173,672</u> |

8. PENSION PLAN

Plan Information

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 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://www.sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

8. PENSION PLAN, continued

Benefits Provided, continued

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service.

An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level.

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

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 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.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022

8. PENSION PLAN, continued

Benefits Provided, continued

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2022, 2021, and 2020 were \$253,723, \$244,031, and \$224,269, respectively, equal to the required contributions each year.

Pension (Asset)/Liability, Pension Revenue, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

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

| | |
|---|-----------------------|
| Proportionate share of pension liability | \$ 24,852,002 |
| Less proportionate share of net position restricted for pension benefits | <u>26,224,559</u> |
| Proportionate share of net pension (asset)/liability | <u>\$ (1,372,557)</u> |

At June 30, 2022, the School District reported a liability (asset) of (\$1,372,557) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2021, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the School District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2021, the School District's proportion was 0.17922500%, which is an increase (decrease) of 0.0089136% from its proportion measured as of June 30, 2020.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS **JUNE 30, 2022**

8. PENSION PLAN, continued

Pension (Asset)/Liability, Pension Revenue, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions, continued

For the year ended June 30, 2022, the School District recognized pension expense (reduction of pension expense) of (\$307,165). At June 30, 2022, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 49,278 | \$ 3,599 |
| Changes in assumptions | 1,578,426 | 687,357 |
| Net difference between projected and actual earnings on pension plan investments | - | 1,960,725 |
| Changes in proportion and difference between the School District's contributions and proportionate share of contributions | 48,559 | - |
| School District contributions subsequent to the measurement date | 253,723 | - |
| Total | <u>\$ 1,929,986</u> | <u>\$ 2,651,681</u> |

\$253,723 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

| Year Ended June 30 | |
|-----------------------|---------------------|
| 2023 | \$ (216,075) |
| 2024 | (160,012) |
| 2025 | (47,754) |
| 2026 | <u>(551,577)</u> |
| Total | <u>\$ (975,418)</u> |

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022

8. PENSION PLAN, continued

Actuarial Assumptions:

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

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

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

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

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of 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.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

8. PENSION PLAN, continued

Actuarial Assumptions, continued:

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---------------|----------------------|---|
| Global Equity | 58.0% | 4.3% |
| Fixed Income | 30.0% | 1.6% |
| Real Estate | 10.0% | 4.6% |
| Cash | 2.0% | 0.9% |
| Total | <u>100%</u> | |

Discount Rate

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

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

The following presents the School District's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50 percent, 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 District's proportionate share of the net pension liability (asset) | \$ 2,222,511 | \$ (1,372,557) | \$ (4,290,915) |

Pension Plan Fiduciary Net Position

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

9. JOINT VENTURE

The School District participates in the joint venture known as the Black Hills Special Services Cooperative (the co-op) a cooperative service unit formed for the purpose of providing vital educational services for both youth and adults. The members of the co-op and their relative percentage participation in the co-op are as follows:

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

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

The School District retains no equity interest in the Net Position of the joint venture, but does have a responsibility to fund deficits of the joint venture in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from Black Hills Special Services Cooperative.

At June 30, 2022, this joint venture had total assets and deferred outflows of \$24,234,481, total liabilities and deferred inflows of \$14,581,078, and net position of \$9,653,403.

10. RISK MANAGEMENT

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

10. RISK MANAGEMENT, continued

Employee Health Insurance

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

Liability Insurance

The School District joined the Associated School Boards of South Dakota Property and Liability Fund (ASBSD-PLF), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts. The objective of the ASBSD-PLF is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The School District's responsibility is to promptly report to and cooperate with the ASBSD-PLF to resolve any incident which could result in a claim being made by or against the School District. The School District pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the ASBSD-PLF member, based on their exposure or type of coverage. The School District pays an annual premium to the pool to provide coverage for property and boiler and machinery, general liability, automobile, crime, employee benefits and school board errors and omissions.

The agreement with the Associated School Boards of South Dakota Property Liability Fund provides that the above coverage will be provided with a \$2,000,000 limit on liability coverage, \$250,000,000 limit on property, \$50,000,000 limit on boiler and machinery, and \$350,000 for various criminal acts. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of deductibles.

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

10. RISK MANAGEMENT, continued

Worker's Compensation

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

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

Unemployment Benefits

The School District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended June 30, 2022, there were no claims paid for unemployment benefits, nor had any claims been filed or were outstanding. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - PAGE 1 OF 2
YEAR ENDED JUNE 30, 2022

| | Budgeted Amounts | | Actual (Budgetary - Modified Accrual Basis) | Variance With Final Budget Positive (Negative) |
|-------------------------------------|-------------------------|------------------|--|---|
| | Original | Final | | |
| REVENUES | | | | |
| Revenues from local sources: | | | | |
| Taxes: | | | | |
| Ad valorem taxes | \$ 2,369,161 | \$ 2,369,161 | \$ 2,237,731 | \$ (131,430) |
| Prior years ad valorem taxes | 65,000 | 65,000 | 88,735 | 23,735 |
| Gross receipts tax | 239,845 | 239,845 | 209,838 | (30,007) |
| Penalties and interest | 25,000 | 25,000 | 10,333 | (14,667) |
| Tuition and fees | 22,000 | 22,000 | - | (22,000) |
| Earning on investments and deposits | 6,000 | 6,000 | 404 | (5,596) |
| Cocurricular activities: | | | | |
| Admissions | 20,000 | 20,000 | 27,426 | 7,426 |
| Other pupil activity income | 3,000 | 3,000 | 3,748 | 748 |
| Other revenue from local sources: | | | | |
| Rentals | 1,000 | 1,000 | 434 | (566) |
| Donations | 1,000 | 1,000 | 400 | (600) |
| Charges for services | 10,000 | 10,000 | 15,628 | 5,628 |
| Other | 39,000 | 39,000 | 21,009 | (17,991) |
| Revenues from intermediate sources: | | | | |
| County sources: | | | | |
| County apportionment | 60,000 | 60,000 | 67,882 | 7,882 |
| Revenue in lieu of taxes | 15,000 | 15,000 | 7,414 | (7,586) |
| Other | - | - | 21,822 | 21,822 |
| Revenues from state sources: | | | | |
| Grants-in-aid: | | | | |
| Unrestricted | 2,391,252 | 2,391,252 | 2,406,466 | 15,214 |
| Other state revenue | 6,500 | 6,500 | - | (6,500) |
| Revenues from federal sources: | | | | |
| Grants-in-aid: | | | | |
| Unrestricted | 21,350 | 21,350 | 27,951 | 6,601 |
| Restricted | 693,959 | 693,959 | 577,582 | (116,377) |
| Revenue in lieu of taxes | 5,000 | 5,000 | 7,414 | 2,414 |
| Total revenues | <u>5,994,067</u> | <u>5,994,067</u> | <u>5,732,217</u> | <u>(261,850)</u> |
| EXPENDITURES | | | | |
| Instruction: | | | | |
| Regular programs: | | | | |
| Elementary | 1,230,669 | 1,230,669 | 1,182,240 | 48,429 |
| Middle school | 685,574 | 685,574 | 681,580 | 3,994 |
| High school | 978,960 | 978,960 | 946,149 | 32,811 |
| Other regular programs | 17,035 | 17,035 | 19,828 | (2,793) |
| Special programs: | | | | |
| Culturally different | 31,217 | 31,217 | 25,580 | 5,637 |
| Educationally deprived | 230,342 | 230,342 | 230,479 | (137) |
| Other special programs | 6,982 | 6,982 | - | 6,982 |

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - PAGE 2 OF 2
YEAR ENDED JUNE 30, 2022

| | Budgeted Amounts | | Actual (Budgetary - Modified Accrual Basis) | Variance With Final Budget Positive (Negative) |
|--|-------------------------|-------------------|--|---|
| | Original | Final | | |
| Support services: | | | | |
| Students: | | | | |
| Guidance | 90,974 | 90,974 | 91,858 | (884) |
| Health | 47,611 | 47,611 | 57,870 | (10,259) |
| Instructional staff: | | | | |
| Improvement of instruction | 199,917 | 199,917 | 68,356 | 131,561 |
| Educational media | 183,870 | 183,870 | 179,639 | 4,231 |
| General administration: | | | | |
| Board of education | 50,268 | 50,268 | 40,182 | 10,086 |
| Executive administration | 153,182 | 153,182 | 145,145 | 8,037 |
| School administration: | | | | |
| Office of principal | 403,368 | 403,368 | 373,317 | 30,051 |
| Title I administration | 12,501 | 12,501 | 13,216 | (715) |
| Other | 1,500 | 1,500 | 1,400 | 100 |
| Business: | | | | |
| Fiscal services | 162,959 | 162,959 | 165,700 | (2,741) |
| Operations and maintenance of plant | 810,959 | 810,959 | 943,101 | (132,142) |
| Pupil transportation | 131,890 | 131,890 | 140,111 | (8,221) |
| Food services | 20,000 | 20,000 | 14,725 | 5,275 |
| Internal services | 12,000 | 12,000 | 9,536 | 2,464 |
| Central: | | | | |
| Staff | 8,050 | 8,050 | 7,834 | 216 |
| Community services: | | | | |
| Other community services | 22,000 | 22,000 | - | 22,000 |
| Nonprogrammed charges: | | | | |
| Payments to State - unemployment | 2,000 | 2,000 | - | 2,000 |
| Cocurricular activities: | | | | |
| Male activities | 142,965 | 142,965 | 124,674 | 18,291 |
| Female activities | 133,897 | 133,897 | 116,359 | 17,538 |
| Transportation | 23,457 | 23,457 | 24,333 | (876) |
| Combined activities | 161,921 | 161,921 | 146,138 | 15,783 |
| Contingencies | 21,500 | 21,500 | | |
| Amount transferred | - | - | - | 21,500 |
| Total expenditures | <u>5,977,568</u> | <u>5,977,568</u> | <u>5,749,350</u> | <u>228,218</u> |
| Excess (deficiency) of revenues over expenditures | <u>16,499</u> | <u>16,499</u> | <u>(17,133)</u> | <u>(33,632)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | <u>-</u> | <u>-</u> | <u>(3,950)</u> | <u>(3,950)</u> |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>(3,950)</u> | <u>(3,950)</u> |
| Net change in fund balances | <u>16,499</u> | <u>16,499</u> | <u>(21,083)</u> | <u>(37,582)</u> |
| Fund balances - beginning | <u>962,947</u> | <u>962,947</u> | <u>962,947</u> | <u>-</u> |
| Fund balances - ending | <u>\$ 979,446</u> | <u>\$ 979,446</u> | <u>\$ 941,864</u> | <u>\$ (37,582)</u> |

See Independent Auditor's Report

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

BUDGETARY COMPARISON SCHEDULE
CAPITAL OUTLAY FUND
YEAR ENDED JUNE 30, 2022

| | Budgeted Amounts | | Actual (Budgetary - Modified Accrual Basis) | Variance With Final Budget Positive (Negative) |
|--|-------------------------|---------------------|--|---|
| | Original | Final | | |
| REVENUES | | | | |
| Revenues from local sources: | | | | |
| Taxes: | | | | |
| Ad valorem taxes | \$ 1,409,473 | \$ 1,409,473 | \$ 1,453,309 | \$ 43,836 |
| Prior years ad valorem taxes | 25,000 | 25,000 | 34,918 | 9,918 |
| Other taxes | 500 | 500 | 2,773 | 2,273 |
| Penalties and interest | 8,000 | 8,000 | 8,212 | 212 |
| Gain on sale of fixed assets | 181,260 | 181,260 | - | (181,260) |
| Other revenue from federal sources: | | | | |
| Restricted | 278,978 | 278,978 | - | (278,978) |
| Other | 135,025 | 135,025 | 1,091,159 | 956,134 |
| Total revenues | <u>2,038,236</u> | <u>2,038,236</u> | <u>2,590,371</u> | <u>552,135</u> |
| EXPENDITURES | | | | |
| Instruction: | | | | |
| Regular programs: | | | | |
| Elementary | 71,564 | 71,564 | 131,313 | (59,749) |
| Middle school | 130,730 | 130,730 | 94,152 | 36,578 |
| High school | 371,183 | 371,183 | 270,075 | 101,108 |
| Special programs: | | | | |
| Programs for educationally deprived | - | - | 900 | (900) |
| Support services: | | | | |
| Students: | | | | |
| Guidance services | 1,000 | 1,000 | - | 1,000 |
| Health services | 1,500 | 1,500 | - | 1,500 |
| Instructional staff: | | | | |
| Improvement of instruction | 1,500 | 1,500 | - | 1,500 |
| Educational media | 257,527 | 257,527 | 47,605 | 209,922 |
| General administration: | | | | |
| Board of education | 10,000 | 10,000 | 10,400 | (400) |
| Executive administration | 1,500 | 1,500 | - | 1,500 |
| School administration: | | | | |
| Office of the principal | 8,100 | 8,100 | 1,107 | 6,993 |
| Business: | | | | |
| Fiscal services | 6,010 | 6,010 | 2,146 | 3,864 |
| Facilities acquisition and construction | 88,196 | 88,196 | 44,275 | 43,921 |
| Operations and maintenance of plant | 416,500 | 416,500 | 562,718 | (146,218) |
| Pupil transportation | 30,000 | 30,000 | - | 30,000 |
| Food services | 11,500 | 11,500 | 1,000 | 10,500 |
| Internal services | 18,128 | 18,128 | 9,305 | 8,823 |
| Debt service | 349,924 | 349,924 | 391,530 | (41,606) |
| Cocurricular activities | 53,700 | 53,700 | 35,499 | 18,201 |
| Total expenditures | <u>1,828,562</u> | <u>1,828,562</u> | <u>1,602,025</u> | <u>226,537</u> |
| Excess (deficiency) of revenues over expenditures | 209,674 | 209,674 | 988,346 | 778,672 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | - | 3,950 | 3,950 |
| Transfers out | - | - | (4,093,146) | (4,093,146) |
| Capital outlay certificates issued | - | - | 3,160,000 | 3,160,000 |
| Premium on debt issued | - | - | 104,788 | 104,788 |
| Interest rebate | - | - | (39,500) | (39,500) |
| Sale of surplus property | 10,000 | 10,000 | 35,462 | 25,462 |
| Total other financing sources (uses) | <u>10,000</u> | <u>10,000</u> | <u>(828,446)</u> | <u>(838,446)</u> |
| Net change in fund balances | 219,674 | 219,674 | 159,900 | (59,774) |
| Fund balances - beginning | <u>2,859,882</u> | <u>2,859,882</u> | <u>2,859,882</u> | <u>-</u> |
| Fund balances - ending | <u>\$ 3,079,556</u> | <u>\$ 3,079,556</u> | <u>\$ 3,019,782</u> | <u>\$ (59,774)</u> |

See Independent Auditor's Report

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION FUND
YEAR ENDED JUNE 30, 2022

| | Budgeted Amounts | | Actual | Variance With |
|---|-------------------------|-------------------|---|---|
| | Original | Final | (Budgetary - Modified Accrual Basis) | Final Budget Positive (Negative) |
| REVENUES | | | | |
| Revenues from local sources: | | | | |
| Taxes: | | | | |
| Ad valorem taxes | \$ 731,475 | \$ 731,475 | \$ 883,135 | \$ 151,660 |
| Prior years ad valorem taxes | 12,000 | 12,000 | 41,462 | 29,462 |
| Other taxes | - | - | 1,711 | 1,711 |
| Penalties and interest | 5,000 | 5,000 | 2,972 | (2,028) |
| Other revenue from local sources: | | | | |
| Charges for services | 15,000 | 15,000 | 3,310 | (11,690) |
| Revenues from state sources: | | | | |
| Grants-in-aid: | | | | |
| Restricted | 224,117 | 224,117 | - | (224,117) |
| Revenues from federal sources: | | | | |
| Grants-in-aid: | | | | |
| Restricted | 253,695 | 253,695 | 186,012 | (67,683) |
| Total revenues | <u>1,241,287</u> | <u>1,241,287</u> | <u>1,118,602</u> | <u>(122,685)</u> |
| EXPENDITURES | | | | |
| Instruction: | | | | |
| Special programs: | | | | |
| Special education | 794,722 | 794,722 | 624,228 | 170,494 |
| Support services: | | | | |
| Students: | | | | |
| Guidance services | 21,365 | 21,365 | - | 21,365 |
| Psychological services | 29,232 | 29,232 | 24,039 | 5,193 |
| Speech pathology | 93,000 | 93,000 | 93,151 | (151) |
| Student therapy | 65,750 | 65,750 | 71,054 | (5,304) |
| Instructional staff: | | | | |
| Improvement of instruction | 28,500 | 28,500 | 40,064 | (11,564) |
| Special education: | | | | |
| Administrative costs | 167,025 | 167,025 | 148,939 | 18,086 |
| Transportation costs | 26,303 | 26,303 | 15,968 | 10,335 |
| Other costs | 4,400 | 4,400 | 8,511 | (4,111) |
| Total expenditures | <u>1,230,297</u> | <u>1,230,297</u> | <u>1,025,954</u> | <u>204,343</u> |
| Excess (deficiency) of revenues over expenditures | <u>10,990</u> | <u>10,990</u> | <u>92,648</u> | <u>81,658</u> |
| Net change in fund balances | 10,990 | 10,990 | 92,648 | 81,658 |
| Fund balances - beginning | <u>434,713</u> | <u>434,713</u> | <u>434,713</u> | <u>-</u> |
| Fund balances - ending | <u>\$ 445,703</u> | <u>\$ 445,703</u> | <u>\$ 527,361</u> | <u>\$ 81,658</u> |

See Independent Auditor's Report

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETS

JUNE 30, 2022

1. BASIS OF PRESENTATION

The financial statements prepared in conformity with US GAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new school bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a school bus would be reported as an expenditure of the Support Services-Business/Pupil Transportation function of government, along with all other current Pupil Transportation related expenditures.

2. BUDGETS AND BUDGETARY ACCOUNTING

The School 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 school district budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETS - continued JUNE 30, 2022

2. BUDGETS AND BUDGETARY ACCOUNTING, continued

8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
11. Budgets for the General Fund and each major special revenue fund are adopted on a basis consistent with US GAAP.
12. The following reconciles the US GAAP Basis fund balance to the budgetary basis fund balance for the General Fund as of June 30, 2022:

| | |
|--|-------------------|
| US GAAP basis fund balance | \$ 1,499,101 |
| Less: portion comprised of unspent Impact Aid revenue | <u>(557,237)</u> |
| Budgetary basis fund balance | <u>\$ 941,864</u> |

HOT SPRNGS SCHOOL DISTRICT NO. 23-2

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) JUNE 30, 2022

South Dakota Retirement System

* Last 10 Fiscal Years

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> |
|--|----------------|--------------|----------------|--------------|--------------|
| School District's proportion of the net pension liability (asset) | 0.2042718% | 0.2085702% | 0.2114752% | 0.2163506% | 0.1960448% |
| School District's proportionate share of net pension liability (asset) | \$ (1,471,695) | \$ (884,606) | \$ 714,342 | \$ (19,634) | \$ (4,572) |
| School District's covered-employee payroll | \$ 3,572,150 | \$ 3,807,900 | \$ 4,023,423 | \$ 4,402,309 | \$ 3,787,688 |
| School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | -41.20% | -23.23% | 17.75% | -0.45% | -0.12% |
| Plan fiduciary net position as a percentage of the total pension liability (asset) | 107.29% | 104.10% | 96.89% | 100.10% | 100.02% |
| | <u>2020</u> | <u>2021</u> | <u>2022</u> | | |
| School District's proportion of the net pension liability (asset) | 0.1738754% | 0.1703114% | 0.1792250% | | |
| School District's proportionate share of net pension liability (asset) | \$ (18,426) | \$ (7,397) | \$ (1,372,557) | | |
| School District's covered-employee payroll | \$ 3,698,002 | \$ 3,737,818 | \$ 4,067,187 | | |
| School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | -0.50% | 0.20% | 33.75% | | |
| Plan fiduciary net position as a percentage of the total pension liability (asset) | 100.09% | 100.04% | 105.52% | | |

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30 of previous fiscal year. Until a full 10-year trend is compiled, the School District will present information for those years for which information is available.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT'S PENSION CONTRIBUTIONS
JUNE 30, 2022

South Dakota Retirement System
* Last 10 Fiscal Years

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> |
|--|----------------|----------------|----------------|----------------|----------------|
| Contractually required contribution | \$ 228,474 | \$ 241,272 | \$ 263,748 | \$ 244,108 | \$ 221,817 |
| Contributions in relation to the contractually required contribution | <u>228,474</u> | <u>241,272</u> | <u>263,748</u> | <u>244,108</u> | <u>221,817</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| School District's covered-employee payroll | \$ 3,807,900 | \$ 4,023,423 | \$ 4,402,309 | \$ 3,787,688 | \$ 3,698,002 |
| Contributions as a percentage of covered-employee payroll | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% |
| | <u>2020</u> | <u>2021</u> | <u>2022</u> | | |
| Contractually required contribution | \$ 224,269 | \$ 244,031 | \$ 253,723 | | |
| Contributions in relation to the contractually required contribution | <u>224,269</u> | <u>244,031</u> | <u>253,723</u> | | |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | | |
| School District's covered-employee payroll | \$ 3,737,818 | \$ 4,067,187 | \$ 4,229,577 | | |
| Contributions as a percentage of covered-employee payroll | 6.00% | 6.00% | 6.00% | | |

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – RETIREMENT SCHEDULES JUNE 30, 2022

Changes from Prior Valuation

The June 30, 2021 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2019 Actuarial Valuation. One change in actuarial assumptions and two plan provision changes are reflected and described below.

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

Benefit Provision Changes

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

Actuarial Assumption Changes

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

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

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

Actuarial Method Changes

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

SUPPLEMENTARY INFORMATION

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022

| Federal Grantor/Pass-Through Grantor Program or Cluster Title | Assistance Listing Number | Pass-Through Entity Identifying Number | Disbursements/ Expenditures |
|--|--|---|--|
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| Pass-Through the South Dakota Department of Education: | | | |
| Child Nutrition Cluster: | | | |
| School Breakfast Program (Note 3) | 10.553 | | |
| Cash Reimbursement | | 2022G-CANS23002 | \$ 103,082 |
| National School Lunch Program (Note 3) | 10.555 | | |
| Cash Reimbursement | | 2022G-CANS23002 | 298,562 |
| Fresh Fruit and Vegetable Program | 10.582 | 2022G-FFVP23002 | 21,132 |
| Total Child Nutrition Cluster | | | 422,776 |
| Forest Service Schools and Roads Cluster: | | | |
| Pass-Through Fall River County: | | | |
| Schools and Roads - Grants to States (Note 3) | 10.665 | *** | 14,280 |
| Total U.S. Department of Agriculture | | | 437,056 |
| U.S. DEPARTMENT OF INTERIOR | | | |
| Pass-Through the South Dakota Department of Education: | | | |
| Payments in Lieu of Taxes (Note 3) | 15.227 | *** | \$ 13,672 |
| Pass-Through Fall River County | | | |
| Payments in Lieu of Taxes (Note 3) | 15.226 | *** | 6,055 |
| Total U.S. Department of Interior | | | 19,727 |
| U.S. DEPARTMENT OF EDUCATION | | | |
| Direct Funding: | | | |
| Indian Education Grants to Local Educational Agencies | 84.060 | | 25,580 |
| Pass-Through the South Dakota Department of Education: | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 2022G-CA23002 | 244,703 |
| Career and Technical Education Perkins | 84.048 | | 31,875 |
| Special Education Cluster: | | | |
| Special Education - Grants to States (Note 3) | 84.027 | 2021G-IDEA23002 | 112,480 |
| Supporting Effective Instruction State Grants | 84.367 | 2022G-CA23002 | 57,433 |
| School Support and Academic Enrichment Program | 84.424 | 2022G-CA23002 | 25,580 |
| State Personnel Development Grants Program | 84.323A | 2022G-632 | 38,045 |
| Education Stabilization Fund - ESSER I - COVID | 84.425D | 2022G-CARE23002 | 703,391 |
| Education Stabilization Fund - ESSER III - COVID | 84.425U | 2022G-ARP23002 | 448,570 |
| Total U.S. Department of Education | | | 1,687,657 |
| Total Expenditures | | | \$ 2,144,440 |

*** - Pass-Through Entity Identifying Number not available.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2022

Note 1: Basis of Presentation

This accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of the School District under programs of the federal government for the year ended June 30, 2022. 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 the School District, it is not intended to, and does not present the financial position, changes in net position, or cash flows of the School District.

Note 2: 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.

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

Note 3: Federal Reimbursement

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



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
Hot Springs School District No. 23-2
Fall River County, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Hot Springs School District No. 23-2 (the School District)** as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated May 31, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies: Findings 2022-001, 2022-02, and 2022-03.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

School District's Response to Findings

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

Purpose of this Report

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

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
May 31, 2023



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

To the School Board
Hot Springs School District No. 23-2
Fall River County, South Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited **Hot Springs School District No. 23-2's (the School District)** compliance with the types of compliance requirements described in the *OMB Circular Compliance Supplement* that could have a direct and material effect on the School District's major federal programs for the year ended June 30, 2022. The 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.

In our opinion, the 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, 2022.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2022-004 to be a significant deficiency.

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

Government Auditing Standards requires the auditor to perform limited procedures on the School District's response to the internal control over compliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. The School District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
May 31, 2023

HOT SPRINGS SCHOOL DISTRICT NO. 23-2
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2022

SECTION II. FINDINGS - FINANCIAL STATEMENT AUDIT

Finding 2021-001 – Cash Reconciliations (Repeat Finding)
Material Weakness

Condition:

The School District did not regularly and timely reconcile cash accounts during the 2020-2021 School Year. A reconciliation was performed subsequent to year end; however, it did not accurately reconcile cash balances. We, as auditors, proposed adjusting journal entries affecting cash balances. A prior period adjustment was made to beginning equity in the General Fund to reflect the unreconciled difference.

Recommendation:

We recommend the School District ensure appropriate internal controls are in place and a system of monitoring exists to ensure the implementation of these controls.

Current Status:

This finding has been revised and restated as a significant deficiency - Finding 2022-001.

Finding 2021-002 – Preparation of Financial Statements (Repeat Finding)
Material Weakness

Condition:

We, as auditors, were requested to draft the audited financial statements and related footnote disclosures for the year ended June 30, 2021. The School District does not have a documented internal control system over financial reporting to provide for the preparation of the financial statements, including the accompanying footnote disclosures as required by US GAAP.

Recommendation:

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. We recommend the School District establish appropriate internal controls over financial reporting and the auditee person responsible for the preparation of financial statements and related footnote disclosures receive appropriate training in order that management can take responsibility for the preparation of its financial statements and related footnote disclosures.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, Continued JUNE 30, 2022

SECTION II. FINDINGS - FINANCIAL STATEMENT AUDIT, Continued

Finding 2021-002 – Preparation of Financial Statements, continued

Current Status:

This finding has been restated as a significant deficiency - Finding 2022-002.

Finding 2021-003 – Internal Control Over Significant Accounts (Repeat Finding) Material Weakness

Condition:

During the course of our engagement, we noted the School District did not have an adequately designed system of internal controls over significant accounts and processes. General ledger accounts are not reconciled to underlying subsidiary records on a regular basis by internal staff members. We, as auditors, proposed material adjustments to taxes receivable, capital assets and pension related liabilities.

Recommendation:

We recommend management take steps to possess the necessary knowledge and accounting expertise to appropriately design and implement an effective system of internal controls that will prevent, detect and correct potential misstatements of significant accounts.

Current Status:

This finding has been restated as a significant deficiency - Finding 2022-003.

SECTION III. FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no major federal award program findings reported.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2022**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiencies identified? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiencies identified? X yes none reported

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

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

Identification of major programs:

Assistance Listing Numbers
84.425

Name of Federal Program or Cluster
Education Stabilization Fund
Special Education Cluster:

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

Auditee qualified as low-risk auditee? yes X no

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2022**

SECTION II - FINDINGS - FINANCIAL STATEMENT AUDIT

**Finding 2022-001 – Cash Reconciliations (Repeat Finding)
Significant Deficiency**

Condition:

The School District did not regularly and timely reconcile cash accounts during the 2021-2022 School Year. A reconciliation was performed subsequent to year end; however, it did not accurately reconcile cash balances. We, as auditors, proposed adjusting journal entries affecting cash balances.

Questioned Costs: None.

Criteria:

An effective internal control system requires regular and timely reconciliation of all cash accounts.

Cause:

The School District had not properly reconciled all cash accounts over the past several years.

Effect:

The School District could be at risk for misappropriation of assets and misstatements of revenues and expenditures.

Recommendation:

We recommend the School District ensure appropriate internal controls are in place and a system of monitoring exists to ensure the implementation of these controls.

Views of Responsible Officials:

Management agrees with the finding. Please refer to the Corrective Action Plan for management's views and planned corrective action.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS JUNE 30, 2022

SECTION II - FINDINGS - FINANCIAL STATEMENT AUDIT, continued

Finding 2022-002 – Preparation of Financial Statements (Repeat Finding) Significant Deficiency

Condition:

We, as auditors, were requested to draft the audited financial statements and related footnote disclosures for the year ended June 30, 2022. The School District does not have a documented internal control system over financial reporting to provide for the preparation of the financial statements, including the accompanying financial statement disclosures as required by US GAAP.

Questioned Costs: None.

Criteria:

It is management's responsibility to provide for the preparation of the School District's financial statements and related financial statement disclosures, which includes having an adequately designed and implemented system of internal controls over financial reporting. It is the responsibility of the auditor to determine the fairness of the presentation of those statements.

Cause:

The School District's current resources and staff expertise do not allow for the preparation of full disclosure financial statements.

Effect:

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

Recommendation:

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. We recommend the School District establish appropriate internal controls over financial reporting and the auditee person responsible for the preparation of financial statements and related footnote disclosures receive appropriate training in order that management can take responsibility for the preparation of its financial statements and related footnote disclosures.

Views of Responsible Officials:

Management agrees with the finding. Please refer to the Corrective Action Plan for management's views and planned corrective action.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS JUNE 30, 2022

SECTION II - FINDINGS - FINANCIAL STATEMENT AUDIT, continued

Finding 2022-003 – Internal Control Over Significant Accounts (Repeat Finding) Significant Deficiency

Condition:

During the course of our engagement, we noted the School District did not have an adequately designed system of internal controls over significant accounts and processes. General ledger accounts are not reconciled to underlying subsidiary records on a regular basis by internal staff members. We, as auditors, proposed material adjustments to taxes receivable, capital assets and pension related liabilities.

Questioned Costs: None.

Criteria:

Effective internal controls have specific criteria established for financial reporting and compliance, including the necessity for the reconciliation of general ledger accounts on a regular basis.

Cause:

Staff members did not have sufficient knowledge and expertise of these criteria to provide timely and accurate financial reporting.

Effect:

The School District's lack of effective internal controls does not allow for control or monitoring of financial information on an ongoing basis.

Recommendation:

We recommend management take steps to possess the necessary knowledge and accounting expertise to appropriately design and implement an effective system of internal controls that will prevent, detect and correct potential misstatements of significant accounts.

Views of Responsible Officials:

Management agrees with the finding. Please refer to the Corrective Action Plan for management's views and planned corrective action.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS JUNE 30, 2022

SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

Finding 2022-004 – Reporting (Compliance; Internal Control Over Compliance)

Significant Deficiency

Condition:

The School District did not complete and submit their audit to the Federal Audit Clearinghouse by the due date of March 31, 2023. This affects all federal programs.

Questioned Costs: None.

Criteria:

2 CFR §200.512 of the Uniform Guidance requires an entity expending more than \$750,000 of federal funds within the calendar year to submit a data collection form by a due date that is the earlier of 30 calendar days after receipt of the auditor's report(s) or nine months after the end of the audit period.

Cause:

The School District has a limited number of staff to perform financial functions.

Effect:

Late filing of the data collection form results in noncompliance with requirements of Uniform Guidance which could lead to sanctions by funding agencies.

Recommendation:

We recommend the School District become familiar with reporting requirements for each award and implement procedures to begin audit preparation work earlier in the fiscal year to ensure reports are filed within the nine-month reporting deadline set forth by Uniform Guidance.

Views of Responsible Officials:

Please refer to the Corrective Action Plan for management's views and planned corrective action.

HOT SPRINGS SCHOOL DISTRICT 23-2

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Wendy Bilbruck, Business Manager
605-745-3619
Troy Lurz, Secondary Principal
605-745-4092



Brad Zachow, Asst Principal/AD
605-745-4183
Jacquie Schniers, Special Services Director
605-745-5028
Abby Karn, Elementary Principal
605-745-4071

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Phone 605-745-4145 Fax 605-745-4178

Responses to Schedule of Findings and Questioned Costs Year Ended June 30, 2022

2022-001. Finding: Cash Reconciliations

Response: The Superintendent is the contact person at this entity responsible for the corrective action plan for this finding and expects to have the plan implemented by the end of the 2022-2023 School Year. The School District has hired new staff and expanded the duties of existing staff to improve performance and monitoring of the reconciliation process.

2022-002. Finding: Financial Statement Preparation

Response: The Superintendent is the contact person at this entity responsible for the corrective action plan for this finding, and there is no anticipated completion date. The School District has accepted the risk associated with requesting the auditors to prepare the financial statements and continues to plan for the auditors to prepare the reports. Planned actions include management to annually review the draft financial statements and related notes prepared by the auditor and to review all recommended adjusting journal entries proposed by the auditor.

2022-003. Finding: Internal Control Over Significant Accounts

Response: The Superintendent is the contact person at this entity responsible for the corrective action plan for this finding and expects to have the plan implemented over the course of the coming 3 to 5 years. The School District has hired new staff and expanded the duties of existing staff to improve performance and monitoring of control functions.

2022-004. Finding: Compliance Findings – Reporting

Response: The Business Manager is the contact person at this entity responsible for the corrective action plan for this comment. The COVID pandemic has caused problems for our School District. Due at approximately the same time were the extended audit for June 30, 2022, the annual report for June 30, 2023, and the proposed budget for the 2023-2024 school year. The late filing was caused by multiple financial processes being completed simultaneously.

WORK, LEARN, CELEBRATE, ACHIEVE