

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

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

JUNE 30, 2025

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
Hot Springs, 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, 2025, 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, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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.

MADISON OFFICE: 205 North Egan Ave. | PO Box 505 | Madison, SD 57042 | (605) 256-9165

YANKTON OFFICE: 207 Douglas Ave. | PO Box 1018 | Yankton, SD 57078 | (605) 665-4401

SIoux FALLS OFFICE: 3600 S Westport, Suite 101 | Sioux Falls, SD 57106 | (605) 336-0372

EMAIL: wrc@wrccpa.com

TOLL FREE: 1-800-456-0889

FAX #: (605) 665-0592



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 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2026, 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.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
March 9, 2026

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

STATEMENT OF NET POSITION
JUNE 30, 2025

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 7,958,084	\$ 31,477	\$ 7,989,561
Inventory	-	6,981	6,981
Investments	3,380,624	-	3,380,624
Accounts receivable, net of allowance	735	-	735
Taxes receivable - current	2,763,163	-	2,763,163
Taxes receivable - delinquent	153,551	-	153,551
Due from other governments	633,309	6,067	639,376
Internal balances	(17,368)	17,368	-
Advance to imprest fund	25,000	-	25,000
Prepaid expenses	120,774	2,375	123,149
Net pension asset	6,535	45	6,580
Capital assets:			
Not being depreciated	321,027	-	321,027
Being depreciated, net of depreciation	<u>15,297,131</u>	<u>44,260</u>	<u>15,341,391</u>
Total capital assets	<u>15,618,158</u>	<u>44,260</u>	<u>15,662,418</u>
 Total assets	 <u>30,642,565</u>	 <u>108,573</u>	 <u>30,751,138</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	<u>1,259,864</u>	<u>8,644</u>	<u>1,268,508</u>
LIABILITIES			
Accounts payable	127,394	1,329	128,723
Contracts payable	492,232	1,925	494,157
Due to other governments	2,685	-	2,685
Accrued expenses	334,161	14,853	349,014
Unearned revenue	-	10,788	10,788
Long-term liabilities:			
Portion due or payable within one year:			
Debt payable	294,532	-	294,532
Finance acquisition lease payable	28,726	-	28,726
Intangible lease payable	11,259	-	11,259
Compensated absences	16,172	-	16,172
Portion due or payable after one year:			
Debt payable	7,937,887	-	7,937,887
Intangible lease payable	6,779	-	6,779
Compensated absences	<u>16,172</u>	<u>-</u>	<u>16,172</u>
 Total liabilities	 <u>9,267,999</u>	 <u>28,895</u>	 <u>9,296,894</u>
DEFERRED INFLOWS OF RESOURCES			
Pension related deferred inflows	821,248	5,626	826,874
Taxes levied for future period	<u>3,297,825</u>	<u>-</u>	<u>3,297,825</u>
 Total deferred inflows of resources	 <u>4,119,073</u>	 <u>5,626</u>	 <u>4,124,699</u>
NET POSITION			
Net investment in capital assets	7,357,013	44,260	7,401,273
Restricted for:			
Capital outlay	4,348,922	-	4,348,922
Special education	1,360,016	-	1,360,016
Bond redemption	2,629,894	-	2,629,894
Capital projects	940,691	-	940,691
SDRS pension purposes	445,151	3,063	448,214
Unrestricted	<u>1,433,670</u>	<u>35,373</u>	<u>1,469,043</u>
 Total net position	 <u>\$ 18,515,357</u>	 <u>\$ 82,696</u>	 <u>\$ 18,598,053</u>

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, 2025

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	\$ 4,731,427	\$ -	\$ 695,702	\$ -	\$ (4,035,725)		\$ (4,035,725)
Support services	3,523,965	30,899	298,158	-	(3,194,908)		(3,194,908)
Cocurricular activities	599,683	52,251	-	-	(547,432)		(547,432)
Interest and fiscal charges	335,074	-	-	-	(335,074)		(335,074)
Total governmental activities	<u>9,190,149</u>	<u>83,150</u>	<u>993,860</u>	<u>-</u>	<u>(8,113,139)</u>		<u>(8,113,139)</u>
Business-type activities:							
Food service	371,293	126,058	201,762	-		\$ (43,473)	(43,473)
Total Business-type activities:	<u>371,293</u>	<u>126,058</u>	<u>201,762</u>	<u>-</u>		<u>(43,473)</u>	<u>(43,473)</u>
Total School District	<u>\$ 9,561,442</u>	<u>\$ 209,208</u>	<u>\$ 1,195,622</u>	<u>\$ -</u>	<u>(8,113,139)</u>	<u>(43,473)</u>	<u>(8,156,612)</u>
General revenues:							
Taxes:							
Property taxes					6,610,790	-	6,610,790
Gross receipts tax					267,850	-	267,850
Revenue from state sources:							
State aid					1,594,611	-	1,594,611
Other					38,213	-	38,213
Revenue from federal sources					112,167	-	112,167
Earnings on investments					302,614	-	302,614
Miscellaneous					110,244	2,575	112,819
Insurance proceeds					25,588	-	25,588
Total general revenues and transfers					<u>9,062,077</u>	<u>2,575</u>	<u>9,064,652</u>
Change in net position					948,938	(40,898)	908,040
Net position - beginning					<u>17,566,419</u>	<u>123,594</u>	<u>17,690,013</u>
Net position - ending					<u>\$ 18,515,357</u>	<u>\$ 82,696</u>	<u>\$ 18,598,053</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, 2025

	Major Funds					Total Governmental Funds
	General	Special Revenue Funds		Bond Redemption Fund	Total Non-Major Governmental Fund	
		Capital Outlay	Special Education			
ASSETS						
Cash and cash equivalents	\$ 2,297,291	\$ 4,024,669	\$ 1,474,359	\$ 161,765	\$ -	\$ 7,958,084
Investments	-	-	-	2,439,933	940,691	3,380,624
Accounts receivable, net of allowance	702	13	20	-	-	735
Taxes receivable - current	1,442,043	751,309	569,811	-	-	2,763,163
Taxes receivable - delinquent	87,296	38,125	28,130	-	-	153,551
Due from other governments	418,369	19,150	195,790	-	-	633,309
Due from other funds	-	497,565	16,066	28,196	-	541,827
Advance to imprest fund	25,000	-	-	-	-	25,000
Prepaid expenses	103,039	2,050	15,685	-	-	120,774
Total assets	\$ 4,373,740	\$ 5,332,881	\$ 2,299,861	\$ 2,629,894	\$ 940,691	\$ 15,577,067
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 31,955	\$ 10,932	\$ 84,507	\$ -	\$ -	\$ 127,394
Contracts payable	429,029	-	63,203	-	-	492,232
Due to other funds	530,999	28,196	-	-	-	559,195
Due to other governments	2,685	-	-	-	-	2,685
Accrued expenses	271,900	-	62,261	-	-	334,161
Total liabilities	1,266,568	39,128	209,971	-	-	1,515,667
Deferred Inflows of Resources:						
Unavailable revenue - property taxes	87,296	38,125	28,130	-	-	153,551
Taxes levied for future period	1,707,110	904,656	686,059	-	-	3,297,825
Total deferred inflows of resources	1,794,406	942,781	714,189	-	-	3,451,376
Fund balances:						
Nonspendable:						
Prepaid expenses	103,039	2,050	15,685	-	-	120,774
Restricted:						
Capital outlay	-	4,348,922	-	-	-	4,348,922
Special education	-	-	1,360,016	-	-	1,360,016
Bond redemption	-	-	-	2,629,894	-	2,629,894
Capital projects	-	-	-	-	940,691	940,691
Unassigned	1,209,727	-	-	-	-	1,209,727
Total fund balances	1,312,766	4,350,972	1,375,701	2,629,894	940,691	10,610,024
Total liabilities, deferred inflows of resources and fund balances	\$ 4,373,740	\$ 5,332,881	\$ 2,299,861	\$ 2,629,894	\$ 940,691	\$ 15,577,067

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, 2025

Total fund balances for governmental funds \$ 10,610,024

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 \$4,196,614 accumulated depreciation	13,890,285	
Improvements, net of \$304,137 accumulated depreciation	79,213	
Equipment, net of \$1,855,948 accumulated depreciation	1,309,595	
Intangible lease asset, net of \$10,819 accumulated amortization	<u>18,038</u>	
Total capital assets		15,618,158

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. 153,551

Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds. 6,535

Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds. 1,259,864

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	8,181,947	
Premium on long-term debt	55,244	
Discount on long-term debt	(4,772)	
Intangible lease	18,038	
Financed acquisition lease	28,726	
Compensated absences	<u>32,344</u>	
Total long-term liabilities		(8,311,527)

Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds. (821,248)

Total net position of governmental activities \$ 18,515,357

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, 2025

	Major Funds					Total Non-Major Governmental Fund	Total Governmental Funds
	General	Special Revenue Funds		Bond Redemption Fund	Capital Projects Fund		
		Capital Outlay	Special Education				
REVENUES							
Local sources:							
Taxes	\$ 3,717,176	\$ 1,767,846	\$ 1,364,260	\$ -	\$ -	\$ -	\$ 6,849,282
Interest	155,642	-	-	106,925	-	40,047	302,614
Cocurricular activities	52,251	-	-	-	-	-	52,251
Other local revenue	6,161	13	30,919	-	-	-	37,093
Intergovernmental:							
County sources	100,586	-	-	-	-	-	100,586
State sources	1,632,824	-	-	-	-	-	1,632,824
Federal sources	578,750	244,519	282,758	-	-	-	1,106,027
Total revenues	<u>6,243,390</u>	<u>2,012,378</u>	<u>1,677,937</u>	<u>106,925</u>	<u>-</u>	<u>40,047</u>	<u>10,080,677</u>
EXPENDITURES							
Instruction:							
Regular programs	3,003,301	250,637	-	-	-	-	3,253,938
Special programs	312,445	-	722,307	-	-	-	1,034,752
Support services:							
Students	160,941	-	317,109	-	-	-	478,050
Instructional staff	163,447	48,072	26,765	-	-	-	238,284
General administration	259,251	2,300	-	-	-	-	261,551
School administration	444,659	-	32	-	-	-	444,691
Business	1,370,909	178,480	38,537	-	-	-	1,587,926
Central	4,919	-	-	-	-	-	4,919
Special education	-	-	235,074	-	-	-	235,074
Cocurricular activities:							
Male activities	139,363	5,992	-	-	-	-	145,355
Female activities	148,774	7,074	-	-	-	-	155,848
Transportation	43,881	-	-	-	-	-	43,881
Combined activities	179,387	2,670	-	-	-	-	182,057
Debt service:							
Principal	-	237,370	-	-	-	-	237,370
Interest and fiscal charges	-	333,676	-	-	-	-	333,676
Issuance costs	-	2,360	-	-	-	-	2,360
Capital outlay	-	677,864	-	-	-	-	677,864
Total expenditures	<u>6,231,277</u>	<u>1,746,495</u>	<u>1,339,824</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,317,596</u>
Excess (deficiency) of revenues over expenditures	<u>12,113</u>	<u>265,883</u>	<u>338,113</u>	<u>106,925</u>	<u>-</u>	<u>40,047</u>	<u>763,081</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	200,000	54,068	-	161,765	-	-	415,833
Transfers out	-	(361,765)	-	-	-	(54,068)	(415,833)
Insurance proceeds	-	25,588	-	-	-	-	25,588
Lease proceeds	-	28,857	-	-	-	-	28,857
Sale of surplus property	466	2,998	-	-	-	-	3,464
Total other financing sources (uses)	<u>200,466</u>	<u>(250,254)</u>	<u>-</u>	<u>161,765</u>	<u>-</u>	<u>(54,068)</u>	<u>57,909</u>
Net change in fund balances	212,579	15,629	338,113	268,690	-	(14,021)	820,990
Fund balances - beginning	1,100,187	4,335,343	1,037,588	2,361,204	954,712	-	9,789,034
Change within reporting entity (major to nonmajor fund)	-	-	-	-	(954,712)	954,712	-
Fund balances - beginning - restated	<u>1,100,187</u>	<u>4,335,343</u>	<u>1,037,588</u>	<u>2,361,204</u>	<u>-</u>	<u>954,712</u>	<u>9,789,034</u>
Fund balances - ending	<u>\$ 1,312,766</u>	<u>\$ 4,350,972</u>	<u>\$ 1,375,701</u>	<u>\$ 2,629,894</u>	<u>\$ -</u>	<u>\$ 940,691</u>	<u>\$ 10,610,024</u>

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

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

Net change in fund balances - total governmental funds \$ 820,990

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 (\$677,864) exceeded depreciation (\$604,518) in the current period. 73,346

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". 29,358

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. (176,221)

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. (28,857)

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		\$ 237,370	
Accretion of discount		(2,386)	
Amortization of bond premium		<u>3,348</u>	
			238,332

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 in the following:

Compensated absences	<u>(8,010)</u>	
Total		<u>(8,010)</u>

Change in net position of governmental activities \$ 948,938

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, 2025

	Enterprise Fund Major Fund Food Service
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 31,477
Inventory	6,981
Due from other funds	17,368
Due from other governments	6,067
Prepaid insurance	<u>2,375</u>
Total current assets	<u>64,268</u>
Noncurrent assets:	
Net pension asset	45
Capital assets:	
Machinery and equipment	189,656
Less accumulated depreciation	<u>(145,396)</u>
Total noncurrent assets	<u>44,305</u>
Total assets	<u>108,573</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension related deferred outflows	<u>8,644</u>
LIABILITIES	
Current liabilities:	
Accounts payable	1,329
Accrued expenses	14,853
Contracts payable	1,925
Unearned revenue	<u>10,788</u>
Total current liabilities	<u>28,895</u>
Total liabilities	<u>28,895</u>
DEFERRED INFLOWS OF RESOURCES	
Pension related deferred inflows	<u>5,626</u>
NET POSITION	
Investment in capital assets	44,260
Restricted for:	
SDRS pension purposes	3,063
Unrestricted	<u>35,373</u>
Total net position	<u>\$ 82,696</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, 2025

	Enterprise Fund Major Fund Food Service
	<u> </u>
OPERATING REVENUES	
Charges for goods and services	\$ 124,449
Other operating revenue	1,609
Total operating revenues	<u>126,058</u>
 OPERATING EXPENSES	
Salaries and employee benefits	148,251
Purchased services	25,063
Cost of materials	7,235
Cost of sales - purchases	160,919
Cost of sales - donated food	20,643
Miscellaneous	4,280
Depreciation	4,902
Total operating expenses	<u>371,293</u>
 Operating (loss)	<u>(245,235)</u>
 NONOPERATING REVENUES (EXPENSES)	
Local sources:	
Gain (loss) on sale of assets	2,575
State sources:	
Cash reimbursements	611
Federal sources:	
Cash reimbursements	187,047
Donated food	14,104
Total nonoperating revenues	<u>204,337</u>
 Income (loss) before contributions, special items, extraordinary items and transfers	<u>(40,898)</u>
 Change in net position	<u>(40,898)</u>
 Total net position - beginning	<u>123,594</u>
 Total net position - ending	<u>\$ 82,696</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, 2025

	Enterprise Fund Major Fund Food Service
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 101,573
Other operating cash receipts	1,609
Payments to suppliers	(200,654)
Payments to employees	<u>(136,683)</u>
Net cash provided by (used in) operating activities	<u>(234,155)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash reimbursements - state sources	611
Cash reimbursements - federal sources	<u>188,059</u>
Net cash provided by (used in) noncapital financing activities	<u>188,670</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(22,181)
Proceeds from sale of capital assets	<u>2,575</u>
Net cash provided by (used in) capital and related financing activities	<u>(19,606)</u>
Net change in cash and cash equivalents	(65,091)
Balances - beginning of year	<u>96,568</u>
Balances - end of year	<u>\$ 31,477</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Value of commodities received	<u>\$ 14,104</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating (loss)	\$ (245,235)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:	
Depreciation	4,902
Value of donated commodities used	14,104
Change in assets and liabilities:	
(Increase) decrease in:	
Due To/From	(2,136)
Inventory	3,977
Prepays	213
Pension related asset	1,206
Increase (decrease) in:	
Accounts payable	1,329
Accrued expenses	10,149
Contracts payable	212
Unearned revenue	<u>(22,876)</u>
Net cash provided by (used in) operating activities	<u>\$ (234,155)</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, 2025**

	<u>Custodial Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 289,255	\$ 99,669	\$ 388,924
Accounts receivable, net of allowance	<u>12,882</u>	<u>-</u>	<u>12,882</u>
Total assets	<u>302,137</u>	<u>99,669</u>	<u>401,806</u>
LIABILITIES			
Accounts payable	17,542	-	17,542
Advance from general fund	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Total liabilities	<u>42,542</u>	<u>-</u>	<u>42,542</u>
NET POSITION			
Restricted for:			
Individuals and organizations	259,595	-	259,595
Scholarships	<u>-</u>	<u>99,669</u>	<u>99,669</u>
Total net position	<u>\$ 259,595</u>	<u>\$ 99,669</u>	<u>\$ 359,264</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, 2025

	<u>Custodial Funds</u>	<u>Private Purpose Trust Funds</u>	<u>Total</u>
ADDITIONS:			
Donations	\$ -	\$ 3,248	\$ 3,248
Collections for student activities	<u>285,205</u>	<u>-</u>	<u>285,205</u>
Total additions	<u>285,205</u>	<u>3,248</u>	<u>288,453</u>
DEDUCTIONS:			
Payments for student activities	237,126	-	237,126
Trust deductions for scholarships	<u>-</u>	<u>100</u>	<u>100</u>
Total deductions	<u>237,126</u>	<u>100</u>	<u>237,226</u>
Change in net position	48,079	3,148	51,227
Net position - beginning	205,815	53,118	258,933
Error correction	<u>5,701</u>	<u>43,403</u>	<u>49,104</u>
Net position - beginning - restated	<u>211,516</u>	<u>96,521</u>	<u>308,037</u>
Net position - ending	<u>\$ 259,595</u>	<u>\$ 99,669</u>	<u>\$ 359,264</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, 2025

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.

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 revenues. 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, 2025**

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 and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management 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, 2025

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.

Bond Redemption Fund – A fund established by SDCL 13-16-13 to account for the proceeds of a special property tax restricted to use for the payment of principal and interest on general obligation bonded debt. The Bond Redemption Fund is the only debt service fund maintained by the School District. 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.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

Proprietary Funds:

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

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

Food Service Fund – A fund 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.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

In the fund financial statements, the “current financial resources” measurement focus, and the modified accrual basis of accounting are applied to governmental funds, while the “economic resources” measurement focus, and the accrual basis of accounting are applied to the proprietary and fiduciary 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, 2025 are property taxes.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2025

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, are reported as a deferred inflow of resources.

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

All proprietary 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, if any.

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.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Investments

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

Inventory

Inventory held for consumption is stated at cost.

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

In the government-wide and enterprise fund financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the governmental fund financial statements, inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by Nonspendable Fund Balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

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.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Capital Assets, continued

For governmental and business-type activities capital assets, construction-period interest is not capitalized, in accordance with GAAP.

The total June 30, 2025, 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, 2025, 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/amortization 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/amortization methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation/Amortization Method	Estimated Useful Life
Land	\$ 5,000	-	-
Intangible lease asset	\$ 5,000	Straight-line	3-15 years
Equipment (government-wide)	\$ 5,000	Straight-line	3-50 years
Equipment (proprietary funds)	\$ 5,000	Straight-line	3-15 years
Site Improvements	\$ 10,000	Straight-line	10-20 years
Buildings and Improvements	\$ 50,000	Straight-line	20-125 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.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Long-Term Liabilities, continued

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 and debt payable.

In the fund financial statements, debt proceeds are reported as another financing source, 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.

Long-Term Liabilities – Leases Payable

The School District is a lessee for a cancellable lease of a copier. The School District recognizes a lease liability and an intangible right-to-use lease asset (intangible lease asset) in the government-wide financial statements. The School District recognizes lease liabilities with an initial, individual value of \$5,000.

At the commencement of a lease, the School District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date; plus certain initial direct costs. Subsequently, the intangible lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgements related to leases include how the School District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The School District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the School District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments include in the measurement of the lease liability are composed of fixed payments and purchase option price that the School District is reasonably certain to exercise.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Long-Term Liabilities – Leases Payable, continued

The School District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Intangible lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the Statement of Net Position.

Deferred 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 (expenses) until the applicable future period. Deferred outflows consist of pension activity.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources (revenue) 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), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, 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.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Equity Classifications, continued

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 definitions above.

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 is reported as restricted net position.

Application of Net Position

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

Fund Balance Classification Policies and Procedures

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.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Balance Classification Policies and Procedures, continued

- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Fund Balance may be assigned by the 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 nonspendable fund balance in the General Fund, Capital Outlay Fund, and the Special Education Fund are comprised of prepaids which are in a nonspendable form.

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 for expenditures where all three types are available.

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

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

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Capital Outlay Fund	Property Taxes
Special Education Fund	Grants and Property Taxes

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, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Adoption of New Accounting Standards

In 2025, the School District implemented the provisions of GASB Statement No. 100. GASB Statement No. 100, effective for fiscal years beginning after June 15, 2023, updates the requirements for reporting accounting changes and error corrections. The standard aims to improve the clarity and comparability of financial statements for state and local governments. These requirements do not apply to governments adopting GASB standards for the first time. See Footnote 11 for the effect on the beginning net position as a result of implementation of this standard.

In 2025, the School District implemented the provisions of GASB Statement No. 101. GASB Statement No. 101, effective for fiscal years beginning after December 15, 2023, provides updated guidance on recognizing and measuring compensated absences. The standard simplifies disclosures by allowing only the net change in the liability to be reported and removes the requirement to disclose which funds typically pay these liabilities. There was no effect on the beginning net position as a result of implementation of this standard.

In 2025, the School District implemented the provisions of GASB Statement No. 102. GASB Statement No. 102, effective for fiscal years beginning after June 15, 2024, requires governments to disclose certain risks related to concentrations or constraints that could have a substantial impact. The School District has determined that no such reportable events exist under this standard.

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK, continued

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, 2025, the School District’s deposits were fully insured or collateralized and were not exposed to custodial credit risk.

Custodial Credit Risk – Investments – The risk that, in the event of the counterparty to a transaction, the School District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investments in external investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Investments

As of June 30, 2025, the School District had the following investments:

Investment Type	Credit Rating	Fair Value	Maturity
SD FIT Money Market	unrated	\$ 3,380,624	N/A

The South Dakota Fund Investment Trust (SDFIT) 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 SDFIT money market account (GCR) 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, 2025

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK, 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, 2025.

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. As of June 30, 2025, the School District's investments were with SDFIT.

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 the 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 receivables, if any, are calculated based on historical trend data. For the year ended June 30, 2025, the allowance for doubtful accounts totaled \$ -0-.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

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

4. CAPITAL ASSETS

A summary of changes in governmental activities' capital assets for the year ended June 30, 2025, is as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<i>Governmental Activities:</i>					
<i>Capital assets not being depreciated:</i>					
Land	\$ 321,027	\$ -	\$ -	\$ -	\$ 321,027
Total capital assets not being depreciated	<u>321,027</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>321,027</u>
<i>Capital assets being depreciated/amortized:</i>					
Buildings	17,943,331	143,568	-	-	18,086,899
Improvements	383,350	-	-	-	383,350
Equipment	2,660,104	505,439	-	-	3,165,543
Intangible leased asset	-	28,857	-	-	28,857
Total capital assets being depreciated	<u>20,986,785</u>	<u>677,864</u>	<u>-</u>	<u>-</u>	<u>21,664,649</u>
<i>Less accumulated depreciation for:</i>					
Buildings	3,791,584	405,030	-	-	4,196,614
Improvements	295,792	8,345	-	-	304,137
Equipment	1,675,624	180,324	-	-	1,855,948
Intangible leased asset	-	10,819	-	-	10,819
Total accumulated depreciation/amortization	<u>5,763,000</u>	<u>604,518</u>	<u>-</u>	<u>-</u>	<u>6,367,518</u>
Total capital assets being depreciated/amortized, net	<u>15,223,785</u>	<u>73,346</u>	<u>-</u>	<u>-</u>	<u>15,297,131</u>
<i>Capital assets, net - Governmental Activities</i>	<u>\$ 15,544,812</u>	<u>\$ 73,346</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,618,158</u>

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

Instruction	\$ 350,621
Support Services	181,355
Cocurricular	72,542
Total	<u>\$ 604,518</u>

A summary of changes in business-type activities' capital assets for the year ended June 30, 2025, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-Type Activities:</i>				
<i>Capital assets being depreciated:</i>				
Equipment	\$ 178,211	\$ 22,181	\$ (10,736)	\$ 189,656
Total capital assets being depreciated	<u>178,211</u>	<u>22,181</u>	<u>(10,736)</u>	<u>189,656</u>
<i>Less accumulated depreciation for:</i>				
Equipment	151,230	4,902	(10,736)	145,396
Total accumulated depreciation	<u>151,230</u>	<u>4,902</u>	<u>(10,736)</u>	<u>145,396</u>
Total capital assets being depreciated, net	<u>26,981</u>	<u>17,279</u>	<u>-</u>	<u>44,260</u>
<i>Capital assets, net - Business-Type Activities</i>	<u>\$ 26,981</u>	<u>\$ 17,279</u>	<u>\$ -</u>	<u>\$ 44,260</u>

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

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

4. CAPITAL ASSETS, continued

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

Food Service Fund \$ 4.902

5. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2025, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
General obligation certificates-Series 2021	\$ 2,895,000	\$ -	\$ (135,000)	\$ 2,760,000	\$ 140,000
General obligation certificates-Series 2021	2,545,000	-	-	2,545,000	90,000
Qualified school construction bond	2,750,000	-	-	2,750,000	-
Lighting project bonds	190,516	-	(63,569)	126,947	63,569
Intangible lease payable	-	28,857	(10,819)	18,038	11,259
Financed acquisition	56,708	-	(27,982)	28,726	28,726
Total debt payable	<u>8,437,224</u>	<u>28,857</u>	<u>(237,370)</u>	<u>8,228,711</u>	<u>333,554</u>
QZAB discount	(7,158)	-	2,386	(4,772)	(2,386)
G.O. Certificates premium	58,592	-	(3,348)	55,244	3,348
Debt payable, net	<u>8,488,658</u>	<u>28,857</u>	<u>(238,332)</u>	<u>8,279,183</u>	<u>334,516</u>
Compensated absences	24,334	8,010	-	32,344	16,172
<i>Total Governmental Activities</i>	<u>8,512,992</u>	<u>36,867</u>	<u>(238,332)</u>	<u>8,311,527</u>	<u>350,688</u>
<i>Total Primary Government</i>	<u>\$ 8,512,992</u>	<u>\$ 36,867</u>	<u>\$ (238,332)</u>	<u>\$ 8,311,527</u>	<u>\$ 350,688</u>

The capital outlay certificates were issued as Limited Tax General Obligation Certificates, Series 2023, maturing in 2042, with an interest rate of 2.00%. Interest only payments until August 2025. 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.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

5. LONG-TERM LIABILITIES, continued

The financed acquisition lease payable is related to the School District purchasing 2 buses beginning in 2021 for five years. The total cost of the equipment was \$164,200 with annual payments due in December of each year in the amount of \$29,980. Payments are made from the Capital Outlay Fund.

The copier lease payable is related to the School District leasing a copier machine beginning in 2025 for three years. The total cost of the equipment was \$28,857 with monthly payments due in the amount of \$981. Payments are made from the Capital Outlay Fund.

The annual requirements to amortize long-term debt outstanding as of June 30, 2025, except for compensated absences are as follows:

Year Ending June 30,	Total Debt Payable		
	Principal	Interest	Total
2026	\$ 334,516	\$ 327,289	\$ 661,805
2027	306,119	318,248	624,367
2028	2,993,348	238,275	3,231,623
2029	253,348	158,088	411,436
2030	263,348	149,655	413,003
2031 - 2035	1,441,741	610,303	2,052,044
2036 - 2040	1,706,741	343,098	2,049,839
2041 - 2042	980,022	54,470	1,034,492
Total	\$ 8,279,183	\$ 2,199,426	\$ 10,478,609

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

6. INDIVIDUAL INTERFUND TRANSACTIONS

A summary of amounts due from and due to other funds as of June 30, 2025, is as follows:

	<u>Due From</u>	<u>Due To</u>
<i>Governmental activities:</i>		
General Fund:		
Capital Outlay Fund	\$ -	\$ 497,565
Special Education Fund	-	16,066
Food Service Fund	-	17,368
	<u>-</u>	<u>530,999</u>
Capital Outlay Fund:		
General Fund	497,565	-
Bond Redemption Fund	-	28,196
	<u>497,565</u>	<u>28,196</u>
Special Education Fund:		
General Fund	16,066	-
	<u>16,066</u>	<u>-</u>
Bond Redemption Fund:		
Capital Outlay Fund	28,196	-
	<u>28,196</u>	<u>-</u>
<i>Total governmental activities</i>	<u>541,827</u>	<u>559,195</u>
<i>Business-Type activities:</i>		
Food Service Fund:		
General Fund	17,368	-
	<u>17,368</u>	<u>-</u>
<i>Total business-type activities</i>	<u>17,368</u>	<u>-</u>
	<u>\$ 559,195</u>	<u>\$ 559,195</u>

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

6. INDIVIDUAL INTERFUND TRANSACTIONS, continued

During the normal course of operations, the School District transfers monies between funds for operational purposes. During the year ended June 30, 2025, interfund transfers were as follows:

	Transfers From	Transfers To
	<u> </u>	<u> </u>
<i>Governmental activities:</i>		
Capital Outlay Fund:		
Bond Redemption Fund	\$ -	\$ 161,765
General Fund	<u>-</u>	<u>200,000</u>
	<u>-</u>	<u>361,765</u>
NonMajor Funds:		
Capital Projects Fund:		
Capital Outlay Fund	<u>-</u>	<u>54,068</u>
Bond Redemption Fund:		
Capital Outlay Fund	<u>161,765</u>	<u>-</u>
General Fund:		
Capital Outlay Fund	<u>200,000</u>	<u>-</u>
NonMajor Funds:		
Capital Outlay Fund:		
Capital Projects Fund	<u>54,068</u>	<u>-</u>
<i>Total governmental activities</i>	<u>415,833</u>	<u>415,833</u>
<i>Total primary government</i>	<u>\$ 415,833</u>	<u>\$ 415,833</u>

The transfer from the Capital Outlay Fund to the Bond Redemption Fund is required by a debt covenant with the Qualified School Construction Bonds.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

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

7. RESTRICTED NET POSITION

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

<u>Purpose</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay Fund	Law	\$ 4,348,922
Special Education Fund	Law	1,360,016
Bond Redemption Fund	Covenant	2,629,894
Capital Projects Fund	Law	940,691
SDRS Pension Related Assets	Law	448,214
Total Restricted Net Position		<u>\$ 9,727,737</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). SDRS is a hybrid defined benefit plan designed with several defined contribution plan type provisions and is administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and 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 four classes of members: Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members, and Class D Department of Labor and Regulation members.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2025

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. Class A and B eligible spouses of Foundation members will receive a 60% joint survivor benefit when the member dies.

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

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

8. PENSION PLAN, continued

Benefits Provided, continued

- 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.

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

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, 2025, 2024, and 2023 were \$280,104, \$273,602, and \$270,407, respectively, equal to the required contributions each year.

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

At June 30, 2024, SDRS is 100% 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, 2024, and reported by the School District as of June 30, 2025, are as follows:

Proportionate share of pension liability	\$ 24,247,993
Less proportionate share of net pension restricted for pension benefits	<u>24,254,573</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (6,580)</u></u>

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

8. PENSION PLAN, continued

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

At June 30, 2025, the School District reported a liability (asset) of (\$6,580) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2024, 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, 2024, the School District's proportion was 0.16253900%, which is an increase (decrease) of (0.012209%) from its proportion measured as of June 30, 2023.

For the year ended June 30, 2025, the School District recognized pension expense (reduction of pension expense) of \$177,427. At June 30, 2025, 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	\$ 609,270	\$ -
Changes in assumptions	108,477	826,874
Net difference between projected and actual earnings on pension plan investments	247,834	-
Changes in proportion and difference between the School District's contributions and proportionate share of contributions	22,823	-
School District contributions subsequent to the measurement date	280,104	-
Total	\$ 1,268,508	\$ 826,874

\$280,104 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, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended June 30	
2026	\$ (222,640)
2027	324,389
2028	38,409
2029	21,372
Total	\$ 161,530

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2025

8. PENSION PLAN, continued

Actuarial Assumptions:

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

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

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

- Active and Terminated Vested Members:
 - Teachers, Certified Regents, and Judicial: PubT – 2010
 - Other Class A Members: PubG – 2010
 - Public Safety Members: PubS – 2010
- Retired Members:
 - Teachers, Certified Regents, and Judicial Retirees: PubT – 2010, 108% of rates above age 65
 - Other Class A Retirees: PubG – 2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above
 - Public Safety Retirees: PubS – 2010, 102% of rates at all ages
- Beneficiaries:
 - PubG – 2010 contingent survivor mortality table
- Disabled Members:
 - Public Safety: PubS – 2010 disabled member mortality table
 - Others: PubG – 2010 disabled member mortality table

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

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

8. PENSION PLAN, continued

Actuarial Assumptions, continued:

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.).

The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2024 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	56.3%	3.6%
Investment Grade Debt	22.8%	2.3%
High Yield Debt	7.0%	2.8%
Real Estate	12.0%	4.0%
Cash	1.9%	0.8%
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).

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

8. PENSION PLAN, continued

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:

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
School District's proportionate share of the net pension liability (asset)	\$ 3,343,365	\$ (6,580)	\$ (2,747,878)

Pension Plan Fiduciary Net Position

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

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.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2025

9. JOINT VENTURE, continued

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, 2025, this joint venture had total assets and deferred outflows of \$17,204,275, total liabilities and deferred inflows of \$6,055,632 and net position of \$11,148,643.

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, 2025, the School District managed its risks as follows:

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, boiler and machinery, general liability, automobile, crime, employee benefits and school board errors and omissions.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2025

10. RISK MANAGEMENT, continued

Liability Insurance, continued

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 \$100,000 to the upper limit.

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.

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 provides workers' compensation insurance coverage for participating members of the pool. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of 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.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

10. RISK MANAGEMENT, continued

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, 2025, 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.

11. ADJUSTMENTS TO AND RESTATEMENT OF BEGINNING BALANCES

During the current fiscal year, restatements were made to beginning fund balance accounts to changes in the reporting entity. The following is a schedule of these restatements.

Reporting Units Affect by Restatement of Beginning Balances		
	Governmental Funds	
	Major	Nonmajor
Beginning Balance as Previously Stated	\$ 954,712	\$ -
Change in Reporting Entity:		
Major to Nonmajor Fund	(954,712)	954,712
Beginning Balance as Restated	\$ -	\$ 954,712

The Capital Projects Fund had been reported as a Major Governmental Fund in the previous year and is considered a Nonmajor Governmental Fund in the current year.

12. ERROR CORRECTION

The School District has determined that transactions in prior years were recorded in error. Unreconciled differences in cash have resulted in an increase in net position in the Fiduciary fund net position \$49,104. The changes in net position in the Fiduciary net position and fund balance is comprised of the following:

Reporting Units Affected by Adjustments to and Restatements of Beginning Balances	
	Fiduciary Funds
6/30/2025, as previously reported	\$ 258,933
Error Correction	49,104
06/30/2025, as restated	\$ 308,037

REQUIRED SUPPLEMENTARY INFORMATION

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - PAGE 1 OF 2
YEAR ENDED JUNE 30, 2025

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary - Modified Accrual Basis)</u>	<u>Final Budget Positive (Negative)</u>
REVENUES				
Revenues from local sources:				
Taxes:				
Ad valorem taxes	\$ 3,342,050	\$ 3,342,050	\$ 3,352,156	\$ 10,106
Prior years ad valorem taxes	50,000	50,000	80,856	30,856
Gross receipts tax	252,736	252,736	267,850	15,114
Tax Deed Property	-	-	-	-
Penalties and interest	15,000	15,000	16,314	1,314
Tuition and fees	-	-	-	-
Earning on investments and deposits	55,000	55,000	155,642	100,642
Cocurricular activities:				
Admissions	50,000	50,000	42,796	(7,204)
Other pupil activity income	5,000	5,000	9,455	4,455
Other revenue from local sources:				
Rentals	500	500	375	(125)
Donations	500	500	1,100	600
Other	10,400	10,400	4,686	(5,714)
Revenues from intermediate sources:				
County sources:				
County apportionment	72,682	72,682	79,113	6,431
Revenue in lieu of taxes	14,768	14,768	8,462	(6,306)
Other	15,000	15,000	13,011	(1,989)
Revenues from state sources:				
Grants-in-aid:				
Unrestricted	1,979,319	1,979,319	1,616,392	(362,927)
Other state revenue	27,820	27,820	16,432	(11,388)
Revenues from federal sources:				
Grants-in-aid:				
Unrestricted	28,300	35,500	20,095	(15,405)
Restricted	617,401	617,401	452,783	(164,618)
Revenue in lieu of taxes	13,000	13,000	13,801	801
Total revenues	<u>6,549,476</u>	<u>6,556,676</u>	<u>6,151,319</u>	<u>(405,357)</u>
EXPENDITURES				
Instruction:				
Regular programs:				
Elementary	1,263,250	1,263,250	1,239,331	23,919
Middle school	683,300	683,300	671,710	11,590
High school	1,141,685	1,141,685	1,064,288	77,397
Other regular programs	23,660	23,660	27,972	(4,312)
Special programs:				
Culturally different	20,986	20,986	21,648	(662)
Educationally deprived	305,900	305,900	290,797	15,103
Other special programs	-	-	-	-

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - PAGE 2 OF 2
YEAR ENDED JUNE 30, 2025

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary - Modified Accrual Basis)</u>	<u>Final Budget Positive (Negative)</u>
Support services:				
Students:				
Guidance	95,900	95,900	91,731	4,169
Health	73,094	73,094	69,210	3,884
Instructional staff:				
Improvement of instruction	50,408	50,408	21,785	28,623
Educational media	174,400	174,400	141,662	32,738
General administration:				
Board of education	92,000	92,000	82,606	9,394
Executive administration	186,400	186,400	176,645	9,755
School administration:				
Office of principal	457,700	457,700	434,152	23,548
Title I administration	12,800	12,800	10,507	2,293
Other	1,700	1,700	-	1,700
Business:				
Fiscal services	228,500	228,500	227,437	1,063
Operations and maintenance of plant	1,049,150	1,049,150	875,780	173,370
Pupil transportation	239,705	239,705	221,057	18,648
Food services	24,975	24,975	24,962	13
Internal services	20,800	20,800	20,122	678
Central:				
Staff	7,000	7,000	4,919	2,081
Nonprogrammed charges:				
Payments to State - unemployment	1,600	1,600	1,551	49
Cocurricular activities:				
Male activities	155,975	155,975	139,363	16,612
Female activities	171,175	171,175	148,774	22,401
Transportation	60,600	60,600	43,881	16,719
Combined activities	199,595	199,595	179,387	20,208
Contingencies	-	-	-	-
Amount transferred	-	-	-	-
Total expenditures	<u>6,742,258</u>	<u>6,742,258</u>	<u>6,231,277</u>	<u>510,981</u>
Excess (deficiency) of revenues over expenditures	<u>(192,782)</u>	<u>(185,582)</u>	<u>(79,958)</u>	<u>105,624</u>
OTHER FINANCING SOURCES (USES)				
Sale of general fixed assets	-	-	466	466
Transfers in	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>
Total other financing sources (uses)	<u>200,000</u>	<u>200,000</u>	<u>200,466</u>	<u>466</u>
Net change in fund balances	<u>7,218</u>	<u>14,418</u>	<u>120,508</u>	<u>106,090</u>
Fund balances - beginning	<u>317,090</u>	<u>317,090</u>	<u>317,090</u>	<u>-</u>
Fund balances - ending	<u>\$ 324,308</u>	<u>\$ 331,508</u>	<u>\$ 437,598</u>	<u>\$ 106,090</u>

See Independent Auditor's Report

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

BUDGETARY COMPARISON SCHEDULE
CAPITAL OUTLAY FUND
YEAR ENDED JUNE 30, 2025

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary - Modified Accrual Basis)</u>	<u>Final Budget Positive (Negative)</u>
REVENUES				
Revenues from local sources:				
Taxes:				
Ad valorem taxes	\$ 1,716,295	\$ 1,716,295	\$ 1,733,553	\$ 17,258
Prior years ad valorem taxes	30,000	30,000	24,658	(5,342)
Other taxes	2,500	2,500	1,872	(628)
Penalties and interest	7,000	7,000	7,763	763
Other local revenue	-	-	13	13
Other revenue from federal sources:				
Restricted	307,918	307,918	206,397	(101,521)
Other	385,287	385,287	38,122	(347,165)
Total revenues	<u>2,449,000</u>	<u>2,449,000</u>	<u>2,012,378</u>	<u>(436,622)</u>
EXPENDITURES				
Instruction:				
Regular programs:				
Elementary	63,300	63,300	46,173	17,127
Middle school	64,550	64,550	52,875	11,675
High school	502,550	502,550	151,589	350,961
Special programs:				
Programs for educationally deprived	4,000	4,000	-	4,000
Support services:				
Students:				
Guidance services	-	-	-	-
Health services	8,500	8,500	7,443	1,057
Instructional staff:				
Educational media	58,800	58,800	40,629	18,171
General administration:				
Board of education	2,500	2,500	2,300	200
School administration:				
Office of the principal and superintendent	3,000	3,000	-	3,000
Business:				
Fiscal services	12,000	12,000	610	11,390
Facilities acquisition and construction	640,956	640,956	813,610	(172,654)
Operations and maintenance of plant	132,500	132,500	18,029	114,471
Pupil transportation	150,000	150,000	11,546	138,454
Food services	19,000	19,000	11,665	7,335
Internal services	14,150	14,150	884	13,266
Debt service	567,394	567,394	573,406	(6,012)
Cocurricular activities	28,700	28,700	15,736	12,964
Total expenditures	<u>2,271,900</u>	<u>2,271,900</u>	<u>1,746,495</u>	<u>525,405</u>
Excess (deficiency) of revenues over expenditures	177,100	177,100	265,883	88,783
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	54,068	54,068
Transfers out	200,000	200,000	(361,765)	(561,765)
Insurance proceeds	-	-	25,588	25,588
Lease proceeds	-	-	28,857	28,857
Sale of surplus property	-	-	2,998	2,998
Total other financing sources (uses)	<u>200,000</u>	<u>200,000</u>	<u>(250,254)</u>	<u>(450,254)</u>
Net change in fund balances	377,100	377,100	15,629	(361,471)
Fund balances - beginning	4,335,343	4,335,343	4,335,343	-
Fund balances - ending	<u>\$ 4,712,443</u>	<u>\$ 4,712,443</u>	<u>\$ 4,350,972</u>	<u>\$ (361,471)</u>

See Independent Auditor's Report

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION FUND
YEAR ENDED JUNE 30, 2025

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary - Modified Accrual Basis)</u>	<u>Final Budget Positive (Negative)</u>
REVENUES				
Revenues from local sources:				
Taxes:				
Ad valorem taxes	\$ 1,085,398	\$ 1,085,398	\$ 1,343,229	\$ 257,831
Prior years ad valorem taxes	15,000	15,000	15,922	922
Other taxes	1,000	1,000	-	(1,000)
Penalties and interest	3,000	3,000	5,109	2,109
Other revenue from local sources:				
Charges for services	-	-	30,919	30,919
Revenues from intermediate sources:				
County sources:				
County apportionment	-	-	-	-
Revenues from state sources:				
Grants-in-aid:				
Restricted	20,356	20,356	-	(20,356)
Revenues from federal sources:				
Grants-in-aid:				
Restricted	369,880	369,880	282,758	(87,122)
Total revenues	<u>1,494,634</u>	<u>1,494,634</u>	<u>1,677,937</u>	<u>183,303</u>
EXPENDITURES				
Instruction:				
Special programs:				
Special education	763,850	763,850	722,307	41,543
Support services:				
Students:				
Psychological services	162,500	162,500	130,885	31,615
Speech pathology	175,280	175,280	122,100	53,180
Student therapy	76,250	76,250	64,156	12,094
Instructional staff:				
Improvement of instruction	22,254	22,254	26,765	(4,511)
Special education:				
Administrative costs	132,400	132,400	123,177	9,223
Transportation costs	33,100	33,100	16,460	16,640
Other costs	138,000	138,000	133,974	4,026
Total expenditures	<u>1,503,634</u>	<u>1,503,634</u>	<u>1,339,824</u>	<u>163,810</u>
Excess (deficiency) of revenues over expenditures	<u>(9,000)</u>	<u>(9,000)</u>	<u>338,113</u>	<u>347,113</u>
Net change in fund balances	(9,000)	(9,000)	338,113	347,113
Fund balances - beginning	<u>1,037,588</u>	<u>1,037,588</u>	<u>1,037,588</u>	<u>-</u>
Fund balances - ending	<u>\$ 1,028,588</u>	<u>\$ 1,028,588</u>	<u>\$ 1,375,701</u>	<u>\$ 347,113</u>

See Independent Auditor's Report

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETS JUNE 30, 2025

1. BASIS OF PRESENTATION

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

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 fiduciary funds.
6. After adoption by the School Board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year. No amount of expenditures may be charged directly to the contingency line item in the budget.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETS - continued
JUNE 30, 2025

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 monies are available to increase legal spending authority.
- 9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board.
- 10. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
- 11. Budgets for the General Fund and each major special revenue fund are adopted on a basis consistent with generally accepted accounting principles (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, 2025:

US GAAP basis fund balance	\$ 1,312,766
Less: portion comprised of unspent Impact Aid revenue	<u>(875,168)</u>
Budgetary basis fund balance	<u>\$ 437,598</u>

3. US GAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES

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.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY (ASSET)
 JUNE 30, 2025

South Dakota Retirement System

* Last 10 Fiscal Years

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
School District's proportion of the net pension liability (asset)	0.208570%	0.211475%	0.216351%	0.196045%	0.173875%
School District's proportionate share of net pension liability (asset)	\$ (884,606)	\$ 714,342	\$ (19,634)	\$ (4,572)	\$ (18,426)
School District's covered-employee payroll	\$ 3,807,900	\$ 4,023,423	\$ 4,402,309	\$ 3,787,688	\$ 3,698,002
School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	23.23%	17.75%	0.45%	0.12%	0.50%
Plan fiduciary net position as a percentage of the total pension liability (asset)	104.10%	96.89%	100.10%	100.02%	100.09%
	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
School District's proportion of the net pension liability (asset)	0.170311%	0.179225%	0.177093%	0.174748%	0.162539%
School District's proportionate share of net pension liability (asset)	\$ (7,397)	\$ (1,372,557)	\$ (16,736)	\$ (17,056)	\$ (6,580)
School District's covered-employee payroll	\$ 3,737,818	\$ 4,067,187	\$ 4,229,577	\$ 4,506,784	\$ 4,560,025
School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.20%	33.75%	0.40%	0.38%	0.14%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.04%	105.52%	100.10%	100.10%	100.00%

* 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.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE SCHOOL DISTRICT'S PENSION CONTRIBUTIONS
 JUNE 30, 2025

South Dakota Retirement System
 * Last 10 Fiscal Years

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Contractually required contribution	\$ 241,272	\$ 263,748	\$ 244,108	\$ 221,817	\$ 224,269
Contributions in relation to the contractually required contribution	<u>241,272</u>	<u>263,748</u>	<u>244,108</u>	<u>221,817</u>	<u>224,269</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 4,023,423	\$ 4,402,309	\$ 3,787,688	\$ 3,698,002	\$ 3,737,818
Contributions as a percentage of covered-employee payroll	6.00%	5.99%	6.44%	6.00%	6.00%
	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Contractually required contribution	\$ 244,031	\$ 253,723	\$ 270,407	\$ 273,602	\$ 280,104
Contributions in relation to the contractually required contribution	<u>244,031</u>	<u>253,723</u>	<u>270,407</u>	<u>273,602</u>	<u>280,104</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 4,067,187	\$ 4,229,577	\$ 4,506,784	\$ 4,560,025	\$ 4,668,406
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%	6.00%

See Independent Auditor's Report

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
RETIREMENT SCHEDULES
JUNE 30, 2025**

Changes from Prior Valuation

The June 30, 2024, Actuarial Valuation reflects no changes to the plan provisions or actuarial methods and one change to the actuarial assumptions from the June 30, 2023, Actuarial Valuation.

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

Benefit Provision Changes

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

Actuarial Method Changes

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

Actuarial Assumption Changes

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%.

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

As of June 30, 2024, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is again less than 100% and the July 2025 SDRS COLA is limited to a restricted maximum of 1.71%. The July 2025 SDRS COLA will equal inflation, between 0% and 1.91%. For this June 30, 2024, Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.71%.

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

SUPPLEMENTARY INFORMATION

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2025

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Disbursements/ Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Child Nutrition Cluster:			
US Department of Agriculture Pass-Through Programs From:			
South Dakota Department of Education:			
No-Cash Assistance (Commodities):			
National School Lunch Program (Note 3)	10.555	2025G-CANS25002	\$ 20,643
Cash Assistance:			
School Breakfast Program (Note 3)	10.553	2025G-CANS25002	26,373
National School Lunch Program (Note 3)	10.555	2025G-CANS25002	133,607
Summer Food Service Program for Children	10.559	2025G-SFSP25002	6,067
Fresh Fruit and Vegetable Program	10.582	2025G-FFVP25002	<u>24,975</u>
Total Child Nutrition Cluster			<u>211,665</u>
Schools and Roads Cluster:			
Pass-Through Fall River County:			
Schools and Roads - Grants to States (Note 3)	10.665	***	7,590
Schools and Roads - Grants to Counties (Note 3)	10.666	***	<u>457</u>
Total Schools and Roads Cluster			<u>8,047</u>
Total U.S. Department of Agriculture			<u>219,712</u>
U.S. DEPARTMENT OF INTERIOR			
US Department of Interior Pass-Through Programs From:			
South Dakota Department of Education:			
Distribution of Receipts to State and Local Governments (Note 3)	15.227	***	12,048
Fall River County:			
Payments in Lieu of Taxes (Note 3)	15.226	***	<u>13,801</u>
Total U.S. Department of Interior			<u>25,849</u>
U.S. DEPARTMENT OF EDUCATION			
Special Education Cluster			
US Department of Education Pass-Through Programs From:			
South Dakota Department of Education:			
Special Education - Grants to States (IDEA, Part B) (Note 3)	84.027	H173A240091	278,528
Special Education - Preschool Grants (IDEA Preschool) (Note 3)	84.173	H173A240091	<u>4,230</u>
Total Special Education Cluster			<u>282,758</u>
US Department of Education - Direct Programs:			
Indian Education - Grants to Local Education Agencies	84.060		<u>19,635</u>
Subtotal for US Department of Education Direct Programs			<u>19,635</u>
US Department of Education Pass-Through Programs From:			
South Dakota Department of Education:			
Title I Grants to Local Educational Agencies	84.010	2025G-CA25002	308,889
Career and Technical Education - Basic Grants to States	84.048	2025G-CA25002	3,180
Supporting Effective Instruction State Grants	84.367	2025G-CA25002	51,024
School Support and Academic Enrichment Program	84.424	2025G-CA25002	45,034
Education Stabilization Fund:			
COVID-19 Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425U	2021G-ARP23002	180,000
COVID-19 Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425U	2024G-617	<u>21,000</u>
Subtotal for US Department of Education - Pass-Through Programs			<u>609,127</u>
Total U.S. Department of Education			<u>911,520</u>
GRAND TOTAL			<u>\$ 1,157,081</u>

*** - 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, 2025**

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, 2025. 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.

See Independent Auditor's Report



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
Hot Springs, 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, 2025, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated March 9, 2026.

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.

MADISON OFFICE: 205 North Egan Ave. | PO Box 505 | Madison, SD 57042 | (605) 256-9165

YANKTON OFFICE: 207 Douglas Ave. | PO Box 1018 | Yankton, SD 57078 | (605) 665-4401

SIoux FALLS OFFICE: 3600 S Westport, Suite 101 | Sioux Falls, SD 57106 | (605) 336-0372

EMAIL: wrc@wrccpa.com

TOLL FREE: 1-800-456-0889

FAX #: (605) 665-0592



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 deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies: Findings 2025-001 and 2025-002.

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
March 9, 2026



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

To the School Board
Hot Springs School District No. 23-2
Hot Springs, 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, 2025. 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, 2025.

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.

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SIoux FALLS OFFICE: 3600 S Westport, Suite 101 | Sioux Falls, SD 57106 | (605) 336-0372

EMAIL: wrc@wrccpa.com

TOLL FREE: 1-800-456-0889

FAX #: (605) 665-0592



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 expressed.

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

Report on Internal Control over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. 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
March 9, 2026

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

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

SECTION II. FINDINGS - FINANCIAL STATEMENT AUDIT

**Finding 2024-001 – Preparation of Financial Statements
Significant Deficiency**

Condition:

The School District requested the auditors to draft the audited financial statements and related footnote disclosures for the year ended June 30, 2024. 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.

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. The auditors recommended 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.

Current Status:

Repeated as Finding 2025-001.

**Finding 2024-002 – Internal Control Over Significant Accounts
Significant Deficiency**

Condition:

During the course of their engagement, the auditors 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. The auditors proposed material adjustments to cash, taxes receivable, capital assets, accounts payable, pension related liabilities, fund balance, and revenues.

Recommendation:

The auditors recommended 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.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

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

SECTION II. FINDINGS - FINANCIAL STATEMENT AUDIT, Continued

Finding 2024-002 – Internal Control Over Significant Accounts, continued

Current Status:

Revised and repeated as Finding 2025-002.

SECTION III. FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no prior major federal award program findings reported.

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2025**

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 X 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? _____ yes X 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)? _____ yes X no

Identification of major programs:

<u>Assistance Listing Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027 84.173	Special Education Cluster: Special Education – Grants to States (IDEA, Part B) Special Education – Preschool Grants (IDEA, Preschool)

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

Auditee qualified as low-risk auditee? X yes _____ no

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2025**

SECTION II - FINDINGS - FINANCIAL STATEMENT AUDIT

**Finding 2025-001 – 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, 2025. 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, 2025**

SECTION II - FINDINGS - FINANCIAL STATEMENT AUDIT, continued

**Finding 2025-002 – 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 cash, capital assets, accounts payable, pension related liabilities, fund balance, and revenue.

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, 2025**

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

There are no major federal award program audit findings noted.

HOT SPRINGS SCHOOL DISTRICT 23-2

1747 Lincoln Avenue, Hot Springs, SD 57747

Dennis Fischer, Superintendent
605-745-4159
Wendy Bilbruck, Business Manager
605-745-4145
Kristin Knutson, Special Services Director
605-745-5028
Mike Deming, Activities Director
605-745-4183



Kain Klinkhammer, Secondary School Principa
605-745-4147
Acacia Trevillyan, Elementary Principal
605-745-4149
Eric Roberts, Secondary School Asst Principal
605-745-4092

Corrective Action Plan Year Ended June 30, 2025

2025-001. 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.

2025-002. 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.

Very truly yours,

HOT SPRINGS SCHOOL DISTRICT NO. 23-2

A handwritten signature in black ink that reads 'Kyley Cumbow'.

Dr. Kyley Cumbow
Superintendent