

SPEARFISH SCHOOL DISTRICT NO. 40-2

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



SPEARFISH SCHOOL DISTRICT NO. 40-2

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INDEPENDENT AUDITOR'S REPORT

School Board
Spearfish School District No. 40-2
Spearfish, South Dakota

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Spearfish School District No. 40-2 (the District), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Management has omitted management's discussion and analysis, budgetary comparison schedules, and pension schedules 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 Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The 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.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2026 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

SPEARFISH SCHOOL DISTRICT NO. 40-2

STATEMENT OF NET POSITION

JUNE 30, 2025

	<u>Primary Government</u>		Total
	Governmental Activities	Business-Type Activities	
<u>ASSETS</u>			
Cash and Investments	\$ 17,204,559	\$ 320,931	\$ 17,525,490
Taxes Receivable	8,724,994	-	8,724,994
Accounts Receivable	29,214	-	29,214
Due from Other Governments	450,215	-	450,215
Net Pension Asset	21,117	18	21,135
Restricted Cash	1,470,640	-	1,470,640
Capital Assets:			
Land	1,645,272	-	1,645,272
Buildings, Net of Depreciation	46,502,487	-	46,502,487
Equipment, Net of Depreciation	3,679,591	70,449	3,750,040
TOTAL ASSETS	79,728,089	391,398	80,119,487
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pension Related Deferred Outflows	4,016,078	3,410	4,019,488
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 83,744,167	\$ 394,808	\$ 84,138,975
<u>LIABILITIES</u>			
Accounts Payable	\$ 81,553	\$ 4,172	\$ 85,725
Other Current Liabilities	2,092,720	-	2,092,720
Unearned Revenue	-	260	260
Long-Term Liabilities:			
Due Within One Year	1,383,752	-	1,383,752
Due in More than One Year	12,710,883	-	12,710,883
TOTAL LIABILITIES	16,268,908	4,432	16,273,340
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Taxes Levied for Future Period	8,400,517	-	8,400,517
Pension Related Deferred Inflow of Resources	2,652,953	2,253	2,655,206
TOTAL DEFERRED INFLOWS OF RESOURCES	11,053,470	2,253	11,055,723
<u>NET POSITION</u>			
Net Investment in Capital Assets	37,988,634	70,449	38,059,083
Restricted for:			
Capital Outlay	7,210,722	-	7,210,722
Special Education	1,294,417	-	1,294,417
Debt Service	1,470,640	-	1,470,640
Pension - SDRS	1,384,242	1,175	1,385,417
Unrestricted	7,073,134	316,499	7,389,633
TOTAL NET POSITION	56,421,789	388,123	56,809,912
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 83,744,167	\$ 394,808	\$ 84,138,975

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
<i>Governmental Activities:</i>							
Instruction	\$ 16,907,233	\$ -	\$ 2,190,389	\$ 36,112	\$ (14,680,732)	\$ -	\$ (14,680,732)
Support Services	10,227,539	-	-	-	(10,227,539)	-	(10,227,539)
Community Services	19,381	-	-	-	(19,381)	-	(19,381)
Non-programmed Charges	18,156	-	-	-	(18,156)	-	(18,156)
Co-Curricular Activities	1,529,346	64,808	-	-	(1,464,538)	-	(1,464,538)
Interest on Long-Term Debt *	393,891	-	-	-	(393,891)	-	(393,891)
	29,095,546	64,808	2,190,389	36,112	(26,804,237)	-	(26,804,237)
<i>Business-Type Activities:</i>							
Food Service	1,092,734	528,134	351,132	-	-	(213,468)	(213,468)
Driver's Education	17,571	18,045	-	-	-	474	474
	1,110,305	546,179	351,132	-	-	(212,994)	(212,994)
Total Primary Government	\$ 30,205,851	\$ 610,987	\$ 2,541,521	\$ 36,112	(26,804,237)	(212,994)	(27,017,231)
General Revenues							
Taxes:							
Property Taxes					18,839,118	-	18,839,118
Gross Receipts Taxes					127,316	-	127,316
Revenue from State Sources:							
State Aid					8,220,311	-	8,220,311
Revenue from Federal Sources							
Unrestricted Investment Earnings					103,702	-	103,702
Other General Revenues					617,556	1,872	619,428
					1,045,532	-	1,045,532
Total General Revenues					28,953,535	1,872	28,955,407
Change in Net Position					2,149,298	(211,122)	1,938,176
Net Position -- June 30, 2024					54,272,491	599,245	54,871,736
Net Position -- June 30, 2025					\$ 56,421,789	\$ 388,123	\$ 56,809,912

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

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2025**

	General Fund	Capital Outlay Fund	Special Education Fund
ASSETS			
Cash and Investments	\$ 8,574,733	\$ 7,134,503	\$ 1,495,323
Taxes Receivable -- Current	4,407,301	2,629,554	1,580,192
Taxes Receivable -- Delinquent	64,604	27,143	16,200
Accounts Receivable	20,023	9,191	-
Due from Other Governments	338,728	-	111,487
Restricted Cash	-	-	-
Total Assets	\$ 13,405,389	\$ 9,800,391	\$ 3,203,202
LIABILITIES			
Accounts Payable	\$ 21,731	\$ 21,631	\$ 38,191
Contracts Payable	1,444,290	-	248,963
Accrued Expenses	321,063	-	78,404
Total Liabilities	1,787,084	21,631	365,558
DEFERRED INFLOWS OF RESOURCES			
Taxes Levied for Future Period	4,289,252	2,568,038	1,543,227
Unavailable Revenue - Property Taxes	64,604	27,143	16,200
Total Deferred Inflows of Resources	4,353,856	2,595,181	1,559,427
FUND BALANCES			
Restricted - Capital Outlay	-	7,183,579	-
Restricted - Special Education	-	-	1,278,217
Restricted - Debt Service	-	-	-
Assigned - Subsequent Year's Budget	483,613	-	-
Unassigned	6,780,836	-	-
Total Fund Balances	7,264,449	7,183,579	1,278,217
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 13,405,389	\$ 9,800,391	\$ 3,203,202

The accompanying notes are an integral part of this statement.

QSCB Redemption Fund	Total Governmental Funds
\$ -	\$ 17,204,559
-	8,617,047
-	107,947
-	29,214
-	450,215
1,470,640	1,470,640
<u>\$ 1,470,640</u>	<u>\$ 27,879,622</u>

\$ -	\$ 81,553
-	1,693,253
-	399,467
<u>-</u>	<u>2,174,273</u>

-	8,400,517
-	107,947
<u>-</u>	<u>8,508,464</u>

-	7,183,579
-	1,278,217
1,470,640	1,470,640
-	483,613
-	6,780,836
<u>1,470,640</u>	<u>17,196,885</u>

<u>\$ 1,470,640</u>	<u>\$ 27,879,622</u>
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SPEARFISH SCHOOL DISTRICT NO. 40-2

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

Total Fund Balances - Governmental Funds \$ 17,196,885

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 51,827,350

Long-term liabilities, including general obligation bonds, unamortized premium on bond, compensated absences, and early retirement payable, are not due in the current period and, therefore, are not reported in the funds. (14,094,635)

Assets such as delinquent taxes receivable are not available to pay for current period expenditures and therefore are deferred in the funds. 107,947

Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds. 21,117

Pension related deferred outflows are components of pension asset and therefore are not reported in the funds. 4,016,078

Pension related deferred inflows are components of pension asset and therefore are not reported in the funds. (2,652,953)

Net Position - Governmental Funds \$ 56,421,789

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

	General Fund	Capital Outlay Fund	Special Education Fund
REVENUES			
<i>Revenue from Local Sources:</i>			
Ad Valorem Taxes	\$ 9,580,403	\$ 5,685,960	\$ 3,404,754
Prior Years' Ad Valorem Taxes	26,752	12,550	7,481
Gross Receipts Taxes	127,316	-	-
Penalties and Interest on Taxes	12,146	6,033	3,598
Interest Earned	426,754	189,551	1,251
<i>Co-Curricular Activities:</i>			
Admissions	53,608	-	-
Pupil Organization Memberships	11,200	-	-
<i>Other Local Revenue:</i>			
Rentals	11,120	-	-
Charges for Services - Medicaid	3,523	-	16,633
Other	424,351	207,994	-
<i>Revenue from Intermediate Sources:</i>			
County Apportionment	381,911	-	-
<i>Revenue from State Sources -- Grants-in-Aid:</i>			
Unrestricted Grants-in-Aid	8,220,311	-	-
Restricted Grants-in-Aid	-	-	621,948
Other State Revenue	-	36,112	-
<i>Revenue from Federal Sources -- Grants-in-Aid:</i>			
Unrestricted Grants-in-Aid Received from Federal Government Through State	25,408	-	-
Restricted Grants-in-Aid Received from Federal Government Through State	772,096	242,159	554,186
Other Federal Revenue	-	78,294	-
Total Revenues	20,076,899	6,458,653	4,609,851
EXPENDITURES			
<i>Instruction Regular Programs:</i>			
Elementary	4,598,520	92,966	-
Middle/Junior High School	2,459,074	33,061	-
High School	3,501,817	181,907	-
Class Size Reduction	448,830	-	-
<i>Instruction Special Programs:</i>			
Programs for Special Education	-	20,784	3,545,814
Culturally Different	60,958	-	-
Educationally Deprived	511,959	-	-
<i>Support Services Pupils:</i>			
Attendance and Social Work	78,260	-	-
Guidance	600,795	-	-
Health Services	149,347	-	-
Psychological	-	-	143,441
Speech Pathology	-	-	529,051
Student Therapy Services	-	-	202,690

QSCB Redemption Fund	Total Governmental Funds
\$ -	\$ 18,671,117
-	46,783
-	127,316
-	21,777
-	617,556
-	53,608
-	11,200
-	11,120
-	20,156
-	632,345
-	381,911
-	8,220,311
-	621,948
-	36,112
-	25,408
-	1,568,441
-	78,294
-	31,145,403
-	4,691,486
-	2,492,135
-	3,683,724
-	448,830
-	3,566,598
-	60,958
-	511,959
-	78,260
-	600,795
-	149,347
-	143,441
-	529,051
-	202,690

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

	General Fund	Capital Outlay Fund	Special Education Fund
EXPENDITURES (Continued)			
<i>Support Services Instructional Staff:</i>			
Improvement of Instruction	10,727	253,091	-
Educational Media	691,377	216,495	-
<i>Support Services General Administration:</i>			
Board of Education	140,893	-	-
Executive Administration	334,415	-	-
Office of the Principal	1,510,064	-	-
<i>Support Services Business:</i>			
Fiscal Services	384,543	118,336	-
Facilities Acquisition and Construction	-	842,398	-
Operation and Maintenance of Plant	2,745,896	53,089	-
Pupil Transportation	497,800	-	-
Direction of Central Support Services	34,144	-	-
<i>Support Services Special Education:</i>			
Administrative Costs	-	-	173,842
Transportation Costs	-	-	53,825
Other Special Education	-	-	17,316
Community Service Other	18,460	-	-
Early Retirement	18,156	-	-
Debt Service	-	1,460,039	-
<i>Co-Curricular Activities:</i>			
Male Activities	372,094	-	-
Female Activities	573,582	-	-
Combined Activities	382,209	81,179	-
Capital Outlay	285,185	1,427,051	-
Total Expenditures	20,409,105	4,780,396	4,665,979
Excess of Revenues Over (Under) Expenditures	(332,206)	1,678,257	(56,128)
Other Financing Sources (Uses)			
Transfers In	-	-	-
Transfers Out	-	(189,941)	-
Total Other Financing Sources (Uses)	-	(189,941)	-
Net Change in Fund Balances	(332,206)	1,488,316	(56,128)
Fund Balance -- June 30, 2024	7,596,655	5,695,263	1,334,345
Fund Balance -- June 30, 2025	\$ 7,264,449	\$ 7,183,579	\$ 1,278,217

The accompanying notes are an integral part of this statement.

<u>QSCB Redemption</u> <u>Fund</u>	<u>Total Governmental</u> <u>Funds</u>
-	263,818
-	907,872
-	140,893
-	334,415
-	1,510,064
-	502,879
-	842,398
-	2,798,985
-	497,800
-	34,144
-	173,842
-	53,825
-	17,316
-	18,460
-	18,156
83,200	1,543,239
-	372,094
-	573,582
-	463,388
-	1,712,236
<u>83,200</u>	<u>29,938,680</u>
(83,200)	1,206,723
189,941	189,941
-	(189,941)
<u>189,941</u>	<u>-</u>
106,741	1,206,723
<u>1,363,899</u>	<u>15,990,162</u>
<u>\$ 1,470,640</u>	<u>\$ 17,196,885</u>

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

Net Change in Fund Balances - Total Governmental Funds	\$ 1,206,723
Amounts reported for governmental activities in the Statement of Activities are different because:	
This amount represents capital asset purchases which are reported as expenditures on the fund financial statements, but increase assets on the Statement of Net Position.	1,712,236
This amount represents the current year depreciation expense reported in the Statement of Activities, which is not reported on the fund financial statements because it does not require the use of current financial resources.	(1,293,243)
In both the government-wide and fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the funds' statements differs from the accounting in the government-wide statements in that the fund financial statements require the amounts to be available. This amount reflects the application of both the application period and availability criteria.	99,441
Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the Statement of Activities, expenses for these benefits are recognized when the employees earn leave credits.	(169,108)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	1,120,000
Premium on bond issue is a revenue in the fund statements but is capitalized and recognized as interest expense in the Statement of Activities.	29,348
Changes in the pension related deferred outflows/inflows, pension asset and related pension expenses are not reported in the governmental fund statements.	(556,099)
Change in Net Position of Governmental Activities	\$ 2,149,298

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**PROPRIETARY FUNDS BALANCE SHEET
JUNE 30, 2025**

	Food Service Fund	Driver's Education Fund	Total Proprietary Funds
ASSETS			
Current Assets:			
Cash	\$ 314,663	\$ 6,268	\$ 320,931
Total Current Assets	314,663	6,268	320,931
Noncurrent Assets:			
Net Pension Asset	-	18	18
Capital Assets:			
Machinery and Equipment	300,637	-	300,637
Less Accumulated Depreciation	(230,188)	-	(230,188)
Total Noncurrent Assets	70,449	18	70,467
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows	-	3,410	3,410
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 385,112	\$ 9,696	\$ 394,808
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 4,172	\$ -	\$ 4,172
Unearned Revenue	-	260	260
Total Current Liabilities	4,172	260	4,432
DEFERRED INFLOWS OF RESOURCES			
Pension Related Deferred Inflows	-	2,253	2,253
NET POSITION			
Net Investment in Capital Assets	70,449	-	70,449
Restricted Pension	-	1,175	1,175
Unrestricted Net Position	310,491	6,008	316,499
Total Net Position	380,940	7,183	388,123
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 385,112	\$ 9,696	\$ 394,808

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

	Food Service Fund	Driver's Education Fund	Total Proprietary Funds
Operating Revenue			
Sales	\$ 528,134	\$ -	\$ 528,134
Non-credit Tuition from Students, Parents, or Other	-	18,045	18,045
Total Operating Revenue	528,134	18,045	546,179
Operating Expenses			
Salaries	-	12,783	12,783
Employee Benefits	-	3,022	3,022
Purchased Services	967,772	1,766	969,538
Supplies	18,765	-	18,765
Cost of Sales - Purchased Food	18,032	-	18,032
Cost of Sales - Donated Food	80,222	-	80,222
Depreciation	7,943	-	7,943
Total Operating Expenses	1,092,734	17,571	1,110,305
Operating Income (Loss)	(564,600)	474	(564,126)
Nonoperating Revenue			
<i>Local Sources:</i>			
Interest Earnings	1,872	-	1,872
Cash Reimbursements	2,170	-	2,170
<i>Federal Sources:</i>			
Cash Reimbursements	268,740	-	268,740
Donated Food	80,222	-	80,222
Total Nonoperating Revenue	353,004	-	353,004
Change in Net Position	(211,596)	474	(211,122)
Net Position -- June 30, 2024	592,536	6,709	599,245
Net Position -- June 30, 2025	\$ 380,940	\$ 7,183	\$ 388,123

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

	Food Service Fund	Driver's Education Fund	Total Proprietary Funds
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 528,134	\$ 18,305	\$ 546,439
Payments to Suppliers	(1,000,397)	(1,766)	(1,002,163)
Payments to Employees	-	(14,527)	(14,527)
Net Cash Flows Provided by (Used in) Operating Activities	(472,263)	2,012	(470,251)
Cash Flows Provided by Noncapital Financing Activities:			
Operating Subsidies	270,910	-	270,910
Cash Flows Provided by Investing Activities:			
Cash Received for Interest	1,872	-	1,872
Net Change in Cash During the Fiscal Year	(199,481)	2,012	(197,469)
Cash -- June 30, 2024	514,144	4,256	518,400
Cash -- June 30, 2025	\$ 314,663	\$ 6,268	\$ 320,931
Reconciliation of Operating Income (Loss) to Net Cash Flows Provided By (Used in) Operating Activities			
Operating Income (Loss)	\$ (564,600)	\$ 474	\$ (564,126)
<i>Adjustments to Reconcile Operating Income (Loss) to Net</i>			
<i>Cash Provided By (Used in) Operating Activities:</i>			
Cost of Sales - Donated Food	80,222	-	80,222
Depreciation Expense	7,943	-	7,943
<i>Changes in Assets and Liabilities:</i>			
Net Pension Asset	-	47	47
Pension Related Deferred Inflows and Outflows	-	1,231	1,231
Accounts Payable	4,172	-	4,172
Unearned Revenue	-	260	260
Net Cash Flows Provided by (Used in) Operating Activities	\$ (472,263)	\$ 2,012	\$ (470,251)
Noncash Investing, Capital and Financing Activities:			
Value of Commodities Received	\$ 80,222	\$ -	\$ 80,222

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2025

	Private-Purpose Trust Fund	Custodial Funds
<u>ASSETS</u>		
Cash	\$ 51,786	\$ 375,651
<u>NET POSITION</u>		
Restricted:		
Scholarships	\$ 51,786	\$ -
Individuals, Organizations, and Other Governments	-	375,651

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

	Private-Purpose Trust Funds	Custodial Funds
ADDITIONS		
Member Contributions	\$ -	\$ 374,878
Employee Contributions	-	59,339
Interest Earnings	3,554	4,846
Total Additions	3,554	439,063
DEDUCTIONS		
Payments to Individuals and Organizations	-	365,669
Payments to Cafeteria Plan Provider	-	56,786
Scholarships Awarded	3,500	-
Total Deductions	3,500	422,455
Change in Net Position	54	16,608
Net Position - June 30, 2024	51,732	359,043
Net Position - June 30, 2025	\$ 51,786	\$ 375,651

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

(1) Summary of Significant Accounting Policies

Reporting Entity

The reporting entity of Spearfish School District No. 40-2 (the District) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity), those organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The funds included in this report are controlled by or dependent upon the District's Board of Education. The District participates in a cooperative service unit with 11 other school districts. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are disclosed in these notes because of the nature of their relationship with the District. See Note 7 entitled "Joint Venture" for specific disclosures. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments.

Basis of Presentation

Government-wide Statements:

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

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

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

Fund Financial Statements:

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

(1) Summary of Significant Accounting Policies

Basis of Presentation

Fund Financial Statements:

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

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

The funds of the financial reporting entity are described below:

Governmental Funds:

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

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

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

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

Debt Service Funds - Debt Service Funds are used to account for resources for, and the payment of, general long-term debt principal, interest, and related costs. There is one debt service fund.

Qualified School Construction Bond (QSCB) Redemption Fund – A fund established to account for the payment of interest on qualified school construction bonded debt, as well as the establishment and maintenance of a bond sinking fund. This is a major fund.

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

(1) Summary of Significant Accounting Policies

Basis of Presentation

Fund Financial Statements:

Proprietary Funds:

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

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

Driver's Education Fund - A fund established to record the financial transactions related to the driver's education operation. This fund is financed by user charges. This is a major fund.

Fiduciary Funds:

Fiduciary Funds are never considered to be major funds.

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

Custodial Funds - Custodial Funds are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. The District maintains custodial funds to hold assets as an agent in a trustee capacity for various classes and clubs. Another custodial fund accounts for the monies contributed by employees for health and dependent care expenses.

Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

(1) Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

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, and expenses and related liabilities are recorded when an obligation is incurred.

Fund Financial Statements:

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

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred inflows are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

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

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

Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

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

1. 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.

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

(1) Summary of Significant Accounting Policies

Capital Assets

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

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

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) for land, buildings, improvements, and equipment are all set at \$5,000. The depreciation method used for buildings and machinery and equipment is straight-line. Land and construction in process are not depreciated.

The estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

Buildings	50-100 years
Equipment	7-30 years

Fund Financial Statements:

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

Long-Term Liabilities

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist of compensated absences, general obligation bonds, and related premium.

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

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for the proprietary fund long-term debt is on the accrual basis, the same in the fund statement as it is in the government-wide statements.

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

(1) Summary of Significant Accounting Policies

Deferred Inflows and Outflows of Resources

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

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

Pension

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

Program Revenues

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

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

Proprietary Funds Revenue and Expense Classifications

In the Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

(1) Summary of Significant Accounting Policies

Deposits and Investments

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

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

Investments – In general, SDCL 4-5-6 permits school district funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

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

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

	<u>Bank Balance</u>
Insured - FDIC	\$ 750,000
Uninsured, collateralized in accordance with SDCL 4-6A-3	18,278,910
Total Deposits	\$ 19,028,910

The South Dakota Public 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 the 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. The balance of SDFIT at June 30, 2025 was \$1,470,640. SDFIT is measured as a Level 2 recurring fair value measurement according to the fair value hierarchy.

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

(1) Summary of Significant Accounting Policies

Deposits and Investments

Assignment of Investment Income:

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

Interest Rate Risk:

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

Credit Risk:

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

Custodial Credit Risk:

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

Concentration Risk:

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

Cash and Cash Equivalents

The District pools its cash resources for depositing and investing purposes. 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.

Equity Classifications

Government-wide Statements:

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

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

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

Fund Financial Statements:

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

(1) Summary of Significant Accounting Policies

Equity Classifications

Governmental fund equity is classified as follows:

Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. There were no commitments at June 30, 2025.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the School Board, Superintendent, or Business Manager.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

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

Adopted Accounting Standards

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

As of July 1, 2024, the District adopted GASB Statement No. 102, *Certain Risk Disclosures*, which expands the disclosure requirements for risks related to a government's vulnerabilities due to certain concentrations or constraints. The disclosure criteria should be assessed for the primary government reporting unit and all other reporting units that report a liability for revenue debt. A disclosure shall be made in the notes to the financial statements if all of the following criteria are met: a concentration or constraint is known, the concentration or constraint makes the reporting unit vulnerable to the risk of a substantial impact, and an event related to the concentration or constraint that could have a substantial impact has occurred or is expected to occur within twelve months of the date the financial statements are issued.

These standards did not have a significant impact on the District's financial statements.

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

(1) Summary of Significant Accounting Policies

Emerging Accounting Standards

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

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

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

Subsequent Events

Subsequent events were evaluated through January 12, 2026, which is the date which the financial statements were available to be issued.

(2) Property Taxes

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

District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. 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 inflow of resources-property taxes levied for future period in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period."

(3) Due from Other Governments

Amounts due from other governments include grant reimbursements and gross receipts due from the State of South Dakota in the amount of \$369,351 and gross receipts due from Lawrence County totaling \$80,864.

(4) Individual Fund Interfund Transactions

During the fiscal year, the following amounts were transferred between funds:

Fund	Transfer Out	Transfer In
Capital Outlay Fund	\$ 189,941	\$ -
QSCB Redemption Fund	-	189,941
Total Transfers	\$ 189,941	\$ 189,941

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

(4) Individual Fund Interfund Transactions

Transfers during the current year pertained to a transfer of capital outlay funds to QSCB to make the QSCB debt payments.

(5) Changes in Capital Assets

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

	Balance June 30, 2024	Additions	Transfers/ Retirements	Balance June 30, 2025
Governmental Activities				
<i>Capital Assets, not Depreciated</i>				
Land	\$ 1,645,272	\$ -	\$ -	\$ 1,645,272
Construction in Process	17,160,911	1,147,652	(18,308,563)	-
<i>Capital Assets, Depreciated</i>				
Buildings	39,384,911	18,308,563	-	57,693,474
Outdoor Equipment	208,243	-	-	208,243
Equipment -- Local Funds	6,059,628	564,584	(65,998)	6,558,214
	<u>64,458,965</u>	<u>20,020,799</u>	<u>(18,374,561)</u>	<u>66,105,203</u>
<i>Less Accumulated Depreciation</i>				
Buildings	10,335,613	855,374	-	11,190,987
Outdoor Equipment	119,552	7,143	-	126,695
Equipment -- Local Funds	2,595,443	430,726	(65,998)	2,960,171
	<u>13,050,608</u>	<u>1,293,243</u>	<u>(65,998)</u>	<u>14,277,853</u>
Governmental Activities Capital Assets, Net	<u>\$ 51,408,357</u>	<u>\$ 18,727,556</u>	<u>\$ (18,308,563)</u>	<u>\$ 51,827,350</u>

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

Instruction	\$ 891,976
Support Services	295,200
Co-Curricular Activities	106,067
Total Depreciation Expense	<u>\$ 1,293,243</u>

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

	Balance June 30, 2024	Additions	Transfers/ Retirements	Balance June 30, 2025
Business -Type Activities				
Machinery and Equipment	\$ 300,637	\$ -	\$ -	\$ 300,637
Less Accumulated Depreciation	222,245	7,943	-	230,188
Business -Type Activities Capital Assets, Net	<u>\$ 78,392</u>	<u>\$ (7,943)</u>	<u>\$ -</u>	<u>\$ 70,449</u>

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

(6) Long-Term Liabilities

The District’s long-term liabilities consist of the following:

	June 30, 2024			June 30, 2025	Due Within
	Balance	Borrowings	Repayments	Balance	One Year
General Obligation	\$ 14,565,000	\$ -	\$(1,120,000)	\$ 13,445,000	\$1,155,000
Premium on Refunding Certificates	423,064	-	(29,348)	393,716	29,348
Compensated Absences Payable *	86,811	169,108	-	255,919	199,404
Total	\$ 15,074,875	\$ 169,108	\$(1,149,348)	\$ 14,094,635	\$1,383,752

*The change in compensated absences liability is presented as a net change.

Long-term liabilities, other than compensated absences, comprise the following:

2010 Limited Tax General Obligation Taxable Certificates (Qualified School Construction Bonds - Direct Pay); mature December 2026; semi-annual, interest-only payments with a balloon payment in December 2026; bearing interest at 5.50 percent; paid from the QSCB Redemption Fund. The certificates require sinking fund deposits to generate a total balance of the principal due on maturity (a). The District receives a credit from the Federal Government for 100 percent of the interest paid on the certificates. (b)	\$ 1,500,000
2017 Limited Tax General Obligation Refunding Certificates; mature December 2027; semi-annual payments; bearing interest at a fixed rate of 2.90 percent; paid from the Capital Outlay Fund.	1,730,000
Unamortized deferred premium on 2017 Limited Tax General Obligation Refunding Certificates	13,974
Total 2017 Limited Tax General Obligation Refunding Certificates	1,743,974
2022 Limited Tax General Obligation Certificates; matures August 2041; semi-annual payments; bearing interest rate at a variable rate of 2.00 to 4.00 percent; paid from the Capital Outlay Fund, and secured by State Aid revenue.	10,215,000
Unamortized deferred premium on 2022 Limited Tax General Obligation Refunding Certificates	379,742
Total 2022 Limited Tax General Obligation Certificates	10,594,742
	\$ 13,838,716

(a) The Qualified School Construction Bonds sinking fund required balance at June 30, 2025 was \$1,363,637. The sinking fund balance of \$1,470,640 is included in restricted cash in the QSCB Redemption Fund.

(b) The credit received from the Federal Government can be reduced at certain times during sequestration.

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

(6) Long-Term Debt

The annual requirements to amortize all debt outstanding as of June 30, 2025, excluding compensated absences, are as follows:

Year Ending June 30,	General Obligation		Totals
	<u>Principal</u>	<u>Interest</u>	
2026	\$ 1,155,000	\$ 412,157	\$ 1,567,157
2027	2,685,000	331,814	3,016,814
2028	865,000	244,891	1,109,891
2029	530,000	217,868	747,868
2030	555,000	201,718	756,718
2031-2035	2,940,000	836,139	3,776,139
2036-2040	3,290,000	471,345	3,761,345
2041-2042	1,425,000	69,920	1,494,920
	<u>\$ 13,445,000</u>	<u>\$ 2,785,852</u>	<u>\$ 16,230,852</u>

(7) Joint Venture

The District participates in the Black Hills Special Services Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special educational services to the member school districts. During the year ended June 30, 2025, the District paid \$1,678,372 for services provided by the co-op.

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

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

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

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

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

(8) Pension Plan

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. 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://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 employees, Class A general members, Class B public safety and judicial members, Class C Cement Plant Retirement Fund members, and Class D Department of Labor and Regulation members.

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

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

Legislation enacted in 2017 established the current Cost-of-Living Adjustment (COLA) process. At each valuation date:

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

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

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

(8) Pension Plan

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to contribute an amount equal to the employee’s contribution. The District’s share of contributions to the System for the fiscal years ended June 30, 2025, 2024, and 2023 were \$919,161, \$904,238, and \$827,605, respectively, equal to the required contributions each year.

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

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

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 77,842,552	\$ 66,080	\$ 77,908,632
Less: Proportionate Share of Total Pension Liability	(77,821,435)	(66,062)	(77,887,497)
Proportionate Share of Net Pension Asset	\$ 21,117	\$ 18	\$ 21,135

At June 30, 2025, the District reported an asset of \$21,135 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2024 and the total pension liability used to calculate the net pension asset was based on a projection of the District’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2024, the District’s proportion was approximately 0.522095 percent, which is a decrease of 0.004253 from its proportion measured at June 30, 2023.

For the year ended June 30, 2025, the District recognized pension expense of \$1,450,722. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 1,955,812	\$ -
Changes in Assumption	348,442	2,655,206
Net Difference between Projected and Actual Earnings on Pension Plan Investments	796,073	-
District Contributions Subsequent to the Measurement Date	919,161	-
Total	\$ 4,019,488	\$ 2,655,206

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

(8) Pension Plan

Deferred inflow of resources includes \$919,161 resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net position liability in the year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue), as follows:

2026	\$	(740,493)
2027		1,018,533
2028		103,914
2029		63,167
	\$	<u>445,121</u>

Actuarial Assumptions

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

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

Mortality Rates:

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

Active and Terminated Vested Members:

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

Retired Members:

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

Beneficiaries:

PubG-2010 contingent survivor mortality table

Disabled Members:

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

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

(8) Pension Plan

Actuarial Assumptions

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2024 (see the discussion of the pension plan’s investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	56.3%	3.6%
Investment Grade Debt	22.8%	2.3%
Debt	7.0%	2.8%
Real Estate	12.0%	4.0%
Cash	1.9%	0.8%
	<u>100.0%</u>	

Discount Rate

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

Sensitivity of Asset to Changes in the Discount Rate

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
District’s Proportionate Share of the Net Pension (Asset)/Liability	\$ 10,739,295	\$ (21,135)	\$ (8,826,517)

Pension Plan Fiduciary Net Position

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

(9) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2025, the District managed its risks as follows:

Property/Liability Insurance:

The District purchased property/liability insurance through Employers Mutual Casualty Company (EMC) for risks related to theft, litigation, damage to property, and errors and omissions of public officials. Settled claims resulting from these risks did not exceed the coverage during the previous three fiscal years.

Workmen's Compensation:

The District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota (ASBSD) Worker's Compensation Fund Pool (the Fund), 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 the coverage, and to develop a comprehensive loss control program. The 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 District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy. The District's premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The 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 District does not carry additional insurance to cover claims in excess of the upper limit.

Health Insurance:

The District joined the South Dakota School District Health Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage also includes a \$1,000,000 lifetime maximum payment per person.

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

Unemployment Benefits:

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

SINGLE AUDIT SECTION

SPEARFISH SCHOOL DISTRICT NO. 40-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025**

	Assistance Listing Numbers	Pass-Through Identifying Number	Amount
<i>U.S. Department of Agriculture:</i>			
Pass-Through the S.D. Department of Education:			
Child Nutrition Cluster:			
Non-Cash Assistance (Commodities):			
National School Lunch Program (Note 4)	10.555	NSLP-40002-24	\$ 80,222
Cash Assistance (Note 3):			
National School Lunch Program	10.555	NSLP-40002-24	213,756
CANS Menu Certification	10.555	NSLP-40002-24	15,322
National School Breakfast Program	10.553	NSLP-40002-24	39,661
Total Child Nutrition Cluster			348,961
Pass-Through Lawrence County:			
Schools and Roads - Grants to States	10.665	None	25,397
Total U.S. Department of Agriculture			374,358
 <i>U.S. Department of the Interior:</i>			
Pass-Through the S.D. Department of Education:			
National Mineral Leasing (Note 3)	15.227	None	12
 <i>U.S. Department of Education:</i>			
Pass-Through the S.D. Department of Education:			
Title I Grants to Local Educational Agencies	84.010	None	499,237
Vocational Education Perkins Grant	84.048	None	26,686
Special Education - Grants for Infants and Families with Disabilities	84.181A	None	9
Special Education Cluster:			
Special Education -- IDEA 611 Part B	84.027	None	534,026
Special Education -- IDEA Preschool 619	84.173	None	20,151
Total Special Education Cluster			554,177
Improving Teacher Quality State Grants (Title II Part A)	84.367	None	152,516
Student Support and Academic Enrichment Program (Title IV)	84.424	None	27,257
Stronger Connections Grant	84.424F	None	66,400
American Rescue Plan Emergency Assistance to Non-Public Schools - COVID-19	84.425V	2024G-637	242,159
Total U.S. Department of Education			1,568,441
Total			\$ 1,942,811

SPEARFISH SCHOOL DISTRICT NO. 40-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2025**

Note 1 – Basis of Presentation and Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the 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 District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

Expenditures reported on the Schedule are reported on the 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.

Note 2 – Indirect Cost Rate

The District has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 – Cash Reimbursement

These amounts reflect cash received. Federal reimbursements are based on approved rates for services provided rather than reimbursement for specific expenditures.

Note 4 – Non-Monetary Assistance

These amounts include non-monetary assistance which is reported at fair market value of the commodities received and disbursed.



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

School Board
Spearfish School District No. 40-2
Spearfish, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Spearfish School District No. 40-2 (the District) as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 12, 2026.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings as #2025-001 and #2025-002, that we consider to be material weaknesses.

Report on Compliance and Other Matters

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

School Board
Spearfish School District No. 40-2

District's Response to Findings

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

Purpose of this Report

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



KETEL THORSTENSON, LLP
Certified Public Accountants

January 12, 2026



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

School Board
Spearfish School District No. 40-2
Spearfish, South Dakota

Report on Compliance for Each Major Federal Program

Opinions on Each Major Federal Program

We have audited Spearfish School District No. 40-2's (the District) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2025. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings.

In our opinion, the 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 Opinions 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 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 opinions on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the 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 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 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 procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the 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 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the 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

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

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item #2025-001 to be a material weakness.

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

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

School Board
Spearfish School District No. 40-2

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.



KETEL THORSTENSON, LLP
Certified Public Accountants

January 12, 2026

SPEARFISH SCHOOL DISTRICT NO. 40-2

**SCHEDULE OF FINDINGS
JUNE 30, 2025**

A. Summary of Audit Results

1. The Independent Auditor's Report expresses an unmodified opinion on the financial statements of Spearfish School District No. 40-2 (the District).
2. Material weaknesses were disclosed during the audit of the financial statements as reported in the 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*.
3. No instances of noncompliance material to the District's financial statements were disclosed during the audit.
4. A material weakness was disclosed during the audit of the major federal award programs as reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for the District expresses unmodified opinions on the major program, as listed in #7.
6. Audit findings relative to the major federal award programs, as listed in #7, are reported in Part C of this schedule.
7. The programs tested as a major program include the following:

Major Programs

U.S. Department of Education:

American Rescue Plan Emergency Assistance to
Non-Public Schools
Special Education Cluster (IDEA)

ALN's

84.425V
84.027/84.173

8. The threshold for distinguishing type A and B programs was \$750,000.
9. The District was not determined to be a low-risk auditee.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**SCHEDULE OF FINDINGS
JUNE 30, 2025**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Material Weaknesses

#2025-001: Financial Statement and Schedule of Expenditures of Federal Awards (SEFA) Preparation

Federal Program Affected: All

Compliance Requirement: Reporting

Questioned Costs: None

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

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

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

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

Response/Corrective Action Plan: The School agrees with the above Finding. See Corrective Action Plan.

#2025-002 Finding: Audit Adjustments

Federal Program Affected: None

Compliance Requirement: Not Applicable

Questioned Costs: None

Condition and Cause: As in prior years, during the course of our engagement we proposed material audit adjustments. We also assisted in adjusting pension asset/liability and related deferred outflows and inflows balances. Furthermore, other entries were proposed as part of the audit but were not recorded due to the overall insignificance on the financial statements.

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

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

Recommendation: We recommend the following:

- Fund balances should be rolled forward from the prior year financial statements. No additional entries should be recorded to fund balances.
- Management should continue to review and approve the pension and compensated absences entries.
- Management should accurately track long-term debt government-wide.
- Capital asset purchases should be accurately tracked and recorded to ensure completeness.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**SCHEDULE OF FINDINGS
JUNE 30, 2025**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Material Weaknesses

#2025-002 Finding: Audit Adjustments

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

C. FINDINGS – COMPLIANCE AUDIT

Material Weakness

See finding #2025-001, above.

MANAGEMENT RESPONSE

SPEARFISH SCHOOL DISTRICT 40-2

Office of the Business Manager
Phone: 605-717-1201 Fax: 605-717-1200

525 East Illinois
Spearfish, SD 57783-2521

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS JUNE 30, 2025

Spearfish School District No. 40-2 (the District) respectfully submits the following summary schedule of prior audit findings from the June 30, 2024 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2024 Schedule of Findings.

#2024-001: Financial Statement Preparation

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

Initial Year Report: Originally issued years ago.

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

#2024-002: Audit Adjustments

Status: The District made efforts to record all year-end entries, but several audit adjustments were made.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: The finding is altered based on specific audit adjustments each year and is repeated in the Schedule of Findings. See Corrective Action Plan.

#2024-003: Internal Controls Over Driver's Education

Status: The District made efforts to record consistently and accurately track revenue received, student enrollments, and rates charges for the Driver's Education program.

Initial Year Report: 2024

Reasons for Recurrence and Corrective Action Plan: The finding has been corrected and is not repeated in the Schedule of Findings.

#2024-004: Accuracy of Time-Certification Authorization

Status: The District made efforts to review time-certifications for accuracy and consistently code the general ledger entries.

Initial Year Report: 2024

Reasons for Recurrence and Corrective Action Plan: The finding has been corrected and is not repeated in the Schedule of Findings.

SPEARFISH SCHOOL DISTRICT 40-2

Office of the Business Manager
Phone: 605-717-1201 Fax: 605-717-1200

525 East Illinois
Spearfish, SD 57783-2521

CORRECTIVE ACTION PLAN JUNE 30, 2025

Spearfish School District No. 40-2 (the District) respectfully submits the following corrective action plan from the June 30, 2025 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

#2025-001: Financial Statement and SEFA Preparation

Responsible Individuals: Craig Crosswait, Business Manager

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

Anticipated Completion Date: Ongoing

#2025-002: Audit Adjustments

Responsible Individuals: Craig Crosswait, Business Manager

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

Anticipated Completion Date: Ongoing