



Financial Statements
June 30, 2020

Britton-Hecla School District 45-4

Independent Auditor’s Report..... 1

Financial Statements

 Statement of Net Position 3

 Statement of Activities..... 4

 Balance Sheet – Governmental Funds 5

 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position 6

 Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds 7

 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the 10

 Government-Wide Statement of Activities 10

 Statement of Net Position – Proprietary Funds..... 11

 Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds..... 12

 Statement of Cash Flows – Proprietary Funds..... 13

 Statement of Fiduciary Net Position 14

 Statement of Changes in Fiduciary Net Position 15

 Notes to Financial Statements 16

Required Supplementary Information

 Budgetary Comparison Schedule – Budgetary Basis – General Fund..... 38

 Budgetary Comparison Schedule – Budgetary Basis – Capital Outlay Fund..... 40

 Budgetary Comparison Schedule – Budgetary Basis – Special Education Fund 41

 Budgetary Comparison Schedule – Budgetary Basis – Pension Fund..... 42

 Notes to Required Supplementary Information – Budgetary Comparison Schedule..... 43

 Schedule of Employer’s Share of Net Pension Liability (Asset) 44

 Schedule of Employer’s Contributions..... 45

 Notes to Required Supplementary Information – Pension Schedules 46

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* 47

 Schedule of Findings 49



Independent Auditor's Report

To the School Board
Britton-Hecla School District 45-4
Britton, South Dakota

Report on the Financial Statements

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 the Britton-Hecla School District 45-4 (the School District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedules of employer's share of net pension liability (asset), employer's contributions, and budgetary comparison schedules on pages 38 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion nor provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America requires 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 opinion on the basic financial statements is not affected by the missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2021, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.



Aberdeen, South Dakota
January 8, 2021

Britton-Hecla School District 45-4
Statement of Net Position
June 30, 2020

| | Primary Government | | |
|---|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Assets | | | |
| Cash and cash equivalents | \$ 2,021,523 | \$ 84,529 | \$ 2,106,052 |
| Taxes receivable | 1,815,799 | - | 1,815,799 |
| Due from other governments | 293,699 | 19,165 | 312,864 |
| Inventories | - | 7,396 | 7,396 |
| Net pension asset | 11,223 | 344 | 11,567 |
| Capital assets: | | | |
| Land | 152,762 | - | 152,762 |
| Other capital assets, net of depreciation | 11,175,911 | 100,408 | 11,276,319 |
| Total assets | <u>15,470,917</u> | <u>211,842</u> | <u>15,682,759</u> |
| Deferred Outflows of Resources | | | |
| Pension related deferred outflows | <u>647,666</u> | <u>15,569</u> | <u>663,235</u> |
| | <u>\$ 16,118,583</u> | <u>\$ 227,411</u> | <u>\$ 16,345,994</u> |
| Liabilities | | | |
| Accounts payable | \$ 20,684 | \$ 12,852 | \$ 33,536 |
| Other current liabilities | 364,124 | 4,056 | 368,180 |
| Unearned revenue | - | 13,976 | 13,976 |
| Noncurrent liabilities: | | | |
| Due within one year | 425,235 | - | 425,235 |
| Due in more than one year | 5,862,051 | - | 5,862,051 |
| Total liabilities | <u>6,672,094</u> | <u>30,884</u> | <u>6,702,978</u> |
| Deferred Inflows of Resources | | | |
| Pension related deferred inflows | 231,544 | 7,112 | 238,656 |
| Taxes levied for future period | 1,988,921 | - | 1,988,921 |
| Total deferred inflows of resources | <u>2,220,465</u> | <u>7,112</u> | <u>2,227,577</u> |
| Net Position | | | |
| Net investment in capital assets | 5,096,705 | 100,408 | 5,197,113 |
| Restricted for: | | | |
| Capital Outlay | 725,068 | - | 725,068 |
| Special Education | 87,100 | - | 87,100 |
| SDRS Pension Benefits | 427,345 | 8,801 | 436,146 |
| Unrestricted | 889,806 | 80,206 | 970,012 |
| Total net position | <u>7,226,024</u> | <u>189,415</u> | <u>7,415,439</u> |
| | <u>\$ 16,118,583</u> | <u>\$ 227,411</u> | <u>\$ 16,345,994</u> |

Britton-Hecla School District 45-4

Statement of Activities

Year Ended June 30, 2020

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position | | |
|------------------------------------|---------------------|----------------------|------------------------------------|---|--------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Primary Government | | | | | | |
| Governmental activities: | | | | | | |
| Instruction | \$ 2,803,873 | \$ - | \$ 186,103 | \$ (2,617,770) | \$ - | \$ (2,617,770) |
| Support services | 2,081,492 | - | - | (2,081,492) | - | (2,081,492) |
| Co-curricular activities | 360,539 | 33,713 | - | (326,826) | - | (326,826) |
| *Interest on long-term debt | 176,944 | - | - | (176,944) | - | (176,944) |
| Total governmental activities | <u>5,422,848</u> | <u>33,713</u> | <u>186,103</u> | <u>(5,203,032)</u> | <u>-</u> | <u>(5,203,032)</u> |
| Business-type activities: | | | | | | |
| Food service | 263,761 | 84,950 | 169,614 | - | (9,197) | (9,197) |
| Driver's education | 578 | - | - | - | (578) | (578) |
| After school programs | 12,502 | 6,750 | - | - | (5,752) | (5,752) |
| Total business-type activities | <u>276,841</u> | <u>91,700</u> | <u>169,614</u> | <u>-</u> | <u>(15,527)</u> | <u>(15,527)</u> |
| Total primary government | <u>\$ 5,699,689</u> | <u>\$ 125,413</u> | <u>\$ 355,717</u> | <u>(5,203,032)</u> | <u>(15,527)</u> | <u>(5,218,559)</u> |
| General Revenues | | | | | | |
| Taxes: | | | | | | |
| Property taxes | | | | 3,899,931 | - | 3,899,931 |
| Other taxes | | | | 274,180 | - | 274,180 |
| Revenue from state sources: | | | | | | |
| State aid | | | | 815,598 | - | 815,598 |
| Unrestricted investment earnings | | | | 21,278 | 2,034 | 23,312 |
| Other general revenues | | | | 56,723 | - | 56,723 |
| Loss on disposal of capital assets | | | | (20,896) | (2,316) | (23,212) |
| Total general revenues | | | | <u>5,046,814</u> | <u>(282)</u> | <u>5,046,532</u> |
| Change in Net Position | | | | (156,218) | (15,809) | (172,027) |
| Net Position - Beginning | | | | <u>7,382,242</u> | <u>205,224</u> | <u>7,587,466</u> |
| Net Position - Ending | | | | <u>\$ 7,226,024</u> | <u>\$ 189,415</u> | <u>\$ 7,415,439</u> |

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

Britton-Hecla School District 45-4
Balance Sheet – Governmental Funds
June 30, 2020

| | General Fund | Capital Outlay Fund | Special Education Fund | Pension Fund | Total Governmental Funds |
|--|---------------------|---------------------------|------------------------------|-----------------|--------------------------------|
| Assets | | | | | |
| Cash and cash equivalents | \$ 1,069,809 | \$ 794,545 | \$ 157,169 | \$ - | \$ 2,021,523 |
| Taxes receivable - current | 898,523 | 676,150 | 214,275 | - | 1,788,948 |
| Taxes receivable - delinquent | 16,069 | 8,386 | 2,396 | - | 26,851 |
| Due from other governments | 293,699 | - | - | - | 293,699 |
| | <u>\$ 2,278,100</u> | <u>\$ 1,479,081</u> | <u>\$ 373,840</u> | <u>\$ -</u> | <u>\$ 4,131,021</u> |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 12,359 | \$ 536 | \$ 7,789 | \$ - | \$ 20,684 |
| Contracts payable | 251,856 | - | 30,658 | - | 282,514 |
| Payroll deductions and withholdings and employer matching payable | 72,098 | - | 9,512 | - | 81,610 |
| Total liabilities | <u>336,313</u> | <u>536</u> | <u>47,959</u> | <u>-</u> | <u>384,808</u> |
| Deferred Inflows of Resources | | | | | |
| Taxes levied for future period | 996,663 | 753,477 | 238,781 | - | 1,988,921 |
| Unavailable revenue-delinquent property taxes | 16,069 | 8,386 | 2,396 | - | 26,851 |
| Total deferred inflows of resources | <u>1,012,732</u> | <u>761,863</u> | <u>241,177</u> | <u>-</u> | <u>2,015,772</u> |
| Fund Balances | | | | | |
| Restricted: | | | | | |
| Capital Outlay | - | 716,682 | - | - | 716,682 |
| Special Education | - | - | 84,704 | - | 84,704 |
| Pension | - | - | - | - | - |
| Capital Projects | - | - | - | - | - |
| Assigned (subsequent year's budget) | 148,066 | - | - | - | 148,066 |
| Unassigned | 780,989 | - | - | - | 780,989 |
| Total fund balances | <u>929,055</u> | <u>716,682</u> | <u>84,704</u> | <u>-</u> | <u>1,730,441</u> |
| | <u>\$ 2,278,100</u> | <u>\$ 1,479,081</u> | <u>\$ 373,840</u> | <u>\$ -</u> | <u>\$ 4,131,021</u> |

See Notes to Financial Statements

Britton-Hecla School District 45-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
Year Ended June 30, 2020

| | |
|--|----------------------------|
| Total Fund Balances - Governmental Funds | \$ 1,730,441 |
| 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. | 11,328,673 |
| Long-term liabilities, including bonds payable and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds. | (6,287,286) |
| Assets such as taxes receivable (delinquent and utility) are not available to pay for current period expenditures and, therefore, are deferred in the funds. | 26,851 |
| Net pension asset (liability), pension related deferred inflows of resources, and pension related deferred outflows of resources do not represent available financial resources and, therefore, are not available financial resources and, therefore, are not reported in the funds. | <u>427,345</u> |
| Net Position - Governmental Funds | <u><u>\$ 7,226,024</u></u> |

Britton-Hecla School District 45-4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2020

| | General Fund | Capital Outlay Fund | Special Education Fund | Pension Fund | Total Governmental Funds |
|--|------------------|---------------------------|------------------------------|-----------------|--------------------------------|
| Revenues | | | | | |
| Revenue from local sources | | | | | |
| Taxes: | | | | | |
| Ad valorem taxes | \$ 1,947,494 | \$ 1,492,509 | \$ 422,598 | \$ - | \$ 3,862,601 |
| Prior year's ad valorem taxes | 19,542 | 10,816 | 3,036 | 226 | 33,620 |
| Gross receipts taxes | 274,180 | - | - | - | 274,180 |
| Penalties and interest on taxes | 8,665 | 3,145 | 917 | 96 | 12,823 |
| Earnings on investments and deposits | 11,925 | 3,921 | 1,887 | 3,545 | 21,278 |
| Co-curricular activities: | | | | | |
| Admissions | 30,708 | - | - | - | 30,708 |
| Rentals | 1,900 | - | - | - | 1,900 |
| Other pupil activity | 1,105 | - | - | - | 1,105 |
| Other revenue from local sources: | | | | | |
| Contributions and donations | 1,770 | - | 379 | - | 2,149 |
| Charges for services | 3,671 | - | 4,351 | - | 8,022 |
| Other | 16,838 | - | 412 | - | 17,250 |
| Revenue from intermediate sources: | | | | | |
| County sources: | | | | | |
| County apportionment | 37,324 | - | - | - | 37,324 |
| Revenue from state sources: | | | | | |
| Grants-in-aid: | | | | | |
| Unrestricted grants-in-aid | 815,598 | - | - | - | 815,598 |
| Revenue from federal sources: | | | | | |
| Grants-in-aid: | | | | | |
| Unrestricted grants-in-aid received from federal government through an intermediate source | 7,923 | - | - | - | 7,923 |
| Restricted grants-in-aid received from federal government through the state | 145,980 | - | - | - | 145,980 |
| Other federal revenue | 24,178 | - | - | - | 24,178 |
| Total revenues | <u>3,348,801</u> | <u>1,510,391</u> | <u>433,580</u> | <u>3,867</u> | <u>5,296,639</u> |

Britton-Hecla School District 45-4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2020

| | General Fund | Capital Outlay Fund | Special Education Fund | Pension Fund | Total Governmental Funds |
|--|-----------------|---------------------------|------------------------------|-----------------|--------------------------------|
| Expenditures | | | | | |
| Instruction | | | | | |
| Regular programs: | | | | | |
| Elementary | 1,028,823 | 88,430 | - | - | 1,117,253 |
| Middle/junior high | 253,765 | 32,568 | - | - | 286,333 |
| High school | 456,739 | 20,726 | - | - | 477,465 |
| Special programs: | | | | | |
| Programs for special education | - | - | 403,989 | - | 403,989 |
| Educationally deprived | 97,482 | - | - | - | 97,482 |
| Support services | | | | | |
| Pupils: | | | | | |
| Guidance | 79,030 | - | 705 | - | 79,735 |
| Health | 915 | - | - | - | 915 |
| Psychological | - | - | 14,901 | - | 14,901 |
| Speech pathology | - | - | 31,735 | - | 31,735 |
| Student therapy services | - | - | 20,689 | - | 20,689 |
| Support services - instructional staff: | | | | | |
| Improvement of instruction | 20,466 | - | - | - | 20,466 |
| Educational media | 55,774 | 654 | - | - | 56,428 |
| Support services - general administration: | | | | | |
| Board of Education | 27,419 | - | - | - | 27,419 |
| Executive administration | 143,408 | - | - | - | 143,408 |
| Support services - school administration: | | | | | |
| Office of the Principal | 160,051 | - | - | - | 160,051 |
| Other school administrative | 401 | - | - | - | 401 |
| Support services - business: | | | | | |
| Fiscal services | 114,306 | 2,364 | - | - | 116,670 |
| Facilities acquisition and construction | - | 292,031 | - | - | 292,031 |
| Operation and maintenance of plant | 498,413 | 81,336 | - | - | 579,749 |
| Pupil transportation | 217,056 | 500 | - | - | 217,556 |
| Support services - central: | | | | | |
| Information | 1,643 | 5,000 | - | - | 6,643 |
| Staff | 779 | - | - | - | 779 |

Britton-Hecla School District 45-4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2020

| | General Fund | Capital Outlay Fund | Special Education Fund | Pension Fund | Total Governmental Funds |
|---------------------------------------|-------------------|---------------------------|------------------------------|------------------|--------------------------------|
| Support services - special education: | | | | | |
| Administrative costs | - | - | 22,654 | - | 22,654 |
| Transportation costs | - | - | 22,544 | - | 22,544 |
| Nonprogrammed charges: | | | | | |
| Early retirement payments | - | - | - | 8,944 | 8,944 |
| Debt services | - | 550,379 | - | - | 550,379 |
| Co-curricular activities: | | | | | |
| Male activities | 44,357 | 14,165 | - | - | 58,522 |
| Female activities | 39,384 | - | - | - | 39,384 |
| Transportation | 5,758 | - | - | - | 5,758 |
| Combined activities | 73,585 | 12,105 | - | - | 85,690 |
| Capital outlay | 1,912 | 415,845 | - | - | 417,757 |
| Total expenditures | <u>3,321,466</u> | <u>1,516,103</u> | <u>517,217</u> | <u>8,944</u> | <u>5,363,730</u> |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | 252,750 | - | - | - | 252,750 |
| Transfers out | - | - | - | (252,750) | (252,750) |
| Sale of surplus property | - | 1,200 | - | - | 1,200 |
| Total other financing sources (uses) | <u>252,750</u> | <u>1,200</u> | <u>-</u> | <u>(252,750)</u> | <u>1,200</u> |
| Net Change in Fund Balances | 280,085 | (4,512) | (83,637) | (257,827) | (65,891) |
| Fund Balance - Beginning | <u>648,970</u> | <u>721,194</u> | <u>168,341</u> | <u>257,827</u> | <u>1,796,332</u> |
| Fund Balance - Ending | <u>\$ 929,055</u> | <u>\$ 716,682</u> | <u>\$ 84,704</u> | <u>\$ -</u> | <u>\$ 1,730,441</u> |

Britton-Hecla School District 45-4
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the
 Government-Wide Statement of Activities
 Year Ended June 30, 2020

| | |
|--|----------------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ (65,891) |
| Amounts Reported for Governmental Activities in the Statement of Activities are Different Because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$417,757) was exceeded by depreciation (\$548,043) in the current period. | (130,286) |
| In the statement of activities, losses of \$22,096 on disposed capital assets are reported; whereas, in the governmental funds, the proceeds of \$1,200 from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized. | (22,096) |
| In both the government-wide and fund financial statements, revenues from property tax levies or utility taxes are applied to finance the budget of a particular period. Accounting for revenues from both property and utility 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." | (9,113) |
| Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the 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 compensated absences. | (2,088) |
| Governmental funds do not reflect the change in early retirement debt, but the effects of this debt are reflected in the statement of activities. | 8,400 |
| Governmental funds report the effect of premiums when the debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities. This is the amount of premiums amortized in the current period. | 5,665 |
| Repayment of bond and other long-term debt principal and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | 408,445 |
| Expenses or reductions of expenses related to pensions reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the funds. | <u>(349,254)</u> |
| Change in Net Position of Governmental Activities | <u><u>\$ (156,218)</u></u> |

Britton-Hecla School District 45-4
Statement of Net Position – Proprietary Funds
June 30, 2020

| | Other Enterprise Fund | Food Service Fund | Total |
|--|-----------------------------|----------------------|-------------------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ - | \$ 84,529 | \$ 84,529 |
| Due from other enterprise fund | - | 7,626 | 7,626 |
| Due from state government | 361 | 18,804 | 19,165 |
| Inventory of supplies | - | 589 | 589 |
| Inventory of stores purchased for resale | - | 2,840 | 2,840 |
| Inventory of donated food | - | 3,967 | 3,967 |
| Total current assets | <u>361</u> | <u>118,355</u> | <u>118,716</u> |
| Noncurrent Assets | | | |
| Net pension asset | 54 | 290 | 344 |
| Capital Assets: | | | |
| Machinery and equipment - local funds | - | 155,599 | 155,599 |
| Accumulated depreciation - machinery and equipment - local funds | - | (55,191) | (55,191) |
| Total noncurrent assets | <u>54</u> | <u>100,698</u> | <u>100,752</u> |
| Deferred Outflows of Resources | | | |
| Pension related deferred outflows | <u>2,455</u> | <u>13,114</u> | <u>15,569</u> |
| | <u>\$ 2,870</u> | <u>\$ 232,167</u> | <u>\$ 235,037</u> |
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts payable | \$ - | \$ 12,852 | \$ 12,852 |
| Contracts payable | 2,559 | 256 | 2,815 |
| Benefits payable | 536 | 705 | 1,241 |
| Due to food service fund | 7,626 | - | 7,626 |
| Unearned revenue | - | 13,976 | 13,976 |
| Total current liabilities | <u>10,721</u> | <u>27,789</u> | <u>38,510</u> |
| Deferred Inflows of Resources | | | |
| Pension related deferred inflows | <u>1,122</u> | <u>5,990</u> | <u>7,112</u> |
| Net Position | | | |
| Net investment in capital assets | - | 100,408 | 100,408 |
| Restricted for SDRS pension benefits | 1,387 | 7,414 | 8,801 |
| Unrestricted net position (deficit) | <u>(10,360)</u> | <u>90,566</u> | <u>80,206</u> |
| Total net position (deficit) | <u>(8,973)</u> | <u>198,388</u> | <u>189,415</u> |
| | <u>\$ 2,870</u> | <u>\$ 232,167</u> | <u>\$ 235,037</u> |

Britton-Hecla School District 45-4
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds
Year Ended June 30, 2020

| | Other Enterprise Fund | Food Service Fund | Total |
|------------------------------------|-----------------------------|----------------------|-------------------|
| Operating Revenues | | | |
| Tuition and Fees | | | |
| Student tuition | \$ 6,750 | \$ - | \$ 6,750 |
| Food Sales | | | |
| To pupils | - | 78,858 | 78,858 |
| To adults | - | 5,674 | 5,674 |
| Other | - | 418 | 418 |
| Total operating revenues | <u>6,750</u> | <u>84,950</u> | <u>91,700</u> |
| Operating Expenses | | | |
| Salaries | 9,466 | 60,757 | 70,223 |
| Employee benefits | 2,703 | 25,192 | 27,895 |
| Purchased services | - | 66,376 | 66,376 |
| Supplies | 911 | 5,428 | 6,339 |
| Cost of sales - purchased food | - | 80,293 | 80,293 |
| Cost of sales - donated food | - | 19,013 | 19,013 |
| Other | - | 235 | 235 |
| Loss on disposal of assets | - | 2,316 | 2,316 |
| Depreciation - local funds | - | 6,467 | 6,467 |
| Total operating expenses | <u>13,080</u> | <u>266,077</u> | <u>279,157</u> |
| Operating Loss | <u>(6,330)</u> | <u>(181,127)</u> | <u>(187,457)</u> |
| Nonoperating Revenues | | | |
| Investment earnings | 132 | 1,902 | 2,034 |
| State sources: | | | |
| Cash reimbursements | - | 938 | 938 |
| Federal sources: | | | |
| Cash reimbursements | - | 150,134 | 150,134 |
| Donated food | - | 18,542 | 18,542 |
| Total nonoperating revenues | <u>132</u> | <u>171,516</u> | <u>171,648</u> |
| Change in Net Position | (6,198) | (9,611) | (15,809) |
| Net Position (Deficit) - Beginning | <u>(2,775)</u> | <u>207,999</u> | <u>205,224</u> |
| Net Position (Deficit) - Ending | <u>\$ (8,973)</u> | <u>\$ 198,388</u> | <u>\$ 189,415</u> |

Britton-Hecla School District 45-4
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2020

| | Other Enterprise Fund | Food Service Fund | Total |
|--|-----------------------------|----------------------|--------------|
| Cash Flows from (used for) Operating Activities | | | |
| Receipts from customers | \$ 6,389 | \$ 85,760 | \$ 92,149 |
| Payments to suppliers | 6,258 | (174,375) | (168,117) |
| Payments to employees | (12,779) | (75,432) | (88,211) |
| Net Cash used for Operating Activities | (132) | (164,047) | (164,179) |
| Cash Flows from Noncapital Financing Activities | | | |
| Operating subsidies | - | 151,072 | 151,072 |
| Net Cash from Noncapital Financing Activities | - | 151,072 | 151,072 |
| Cash Flows used for Capital and Related Financing Activities | | | |
| Purchase of capital assets | - | (42,711) | (42,711) |
| Net Cash used for Capital and Related Financing Activities | - | (42,711) | (42,711) |
| Cash Flows from Investing Activities | | | |
| Interest earnings | 132 | 1,902 | 2,034 |
| Net Cash from Investing Activities | 132 | 1,902 | 2,034 |
| Change in Cash and Cash Equivalents | - | (53,784) | (53,784) |
| Cash and Cash Equivalents Beginning of Year | - | 138,313 | 138,313 |
| Cash and Cash Equivalents End of Year | \$ - | \$ 84,529 | \$ 84,529 |
| Reconciliation of Operating Loss to | | | |
| Net Cash from (used for) Operating Activities: | | | |
| Operating loss | \$ (6,330) | \$ (181,127) | \$ (187,457) |
| Adjustments to reconcile operating loss to | | | |
| net cash from (used for) operating activities: | | | |
| Depreciation expense | - | 6,467 | 6,467 |
| Loss on disposal of assets | - | 2,316 | 2,316 |
| Value of donated commodities used | - | 19,013 | 19,013 |
| Change in assets and liabilities: | | | |
| Receivables | (361) | (6,447) | (6,808) |
| Due from other enterprise fund | - | (7,392) | (7,392) |
| Inventories | - | 2,182 | 2,182 |
| Pension asset and deferred outflows | 1,126 | 8,148 | 9,274 |
| Pension liability and deferred inflows | 337 | 1,408 | 1,745 |
| Payables | (2,296) | (15,872) | (18,168) |
| Due to food service fund | 7,392 | - | 7,392 |
| Deferred revenue | - | 7,257 | 7,257 |
| Net Cash used for Operating Activities | \$ (132) | \$ (164,047) | \$ (164,179) |
| Noncash Investing, Capital and Financing Activities | | | |
| Value of commodities received | \$ - | \$ 18,542 | \$ 18,542 |

Britton-Hecla School District 45-4
Statement of Fiduciary Net Position
June 30, 2020

| | <u>Private Purpose Trust Fund</u> | <u>Agency Fund</u> |
|---|---|--------------------|
| Assets | | |
| Cash and cash equivalents | <u>\$ 5,335</u> | <u>\$ 130,877</u> |
| | <u>\$ 5,335</u> | <u>\$ 130,877</u> |
| Liabilities | | |
| Amounts held for others | <u>\$ -</u> | <u>\$ 130,877</u> |
| Total liabilities | <u>-</u> | <u>130,877</u> |
| Net Position | | |
| Net position held in trust for scholarships | <u>5,335</u> | <u>-</u> |
| Total net position | <u>5,335</u> | <u>-</u> |
| | <u>\$ 5,335</u> | <u>\$ 130,877</u> |

Britton-Hecla School District 45-4
Statement of Changes in Fiduciary Net Position
June 30, 2020

| | <u>Private Purpose Trust Fund</u> |
|-------------------------------|---|
| Additions | |
| Contributions and donations | <u>\$ 3,000</u> |
| Total additions | <u> 3,000</u> |
| Deductions | |
| Trust deductions for payments | <u> 2,000</u> |
| Total deductions | <u> 2,000</u> |
| Change in Net Position | 1,000 |
| Net Position - Beginning | <u> 4,335</u> |
| Net Position - Ending | <u><u> \$ 5,335</u></u> |

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Britton-Hecla School District 45-4 conform to generally accepted accounting principles applicable to government entities in the United States of America.

Financial Reporting Entity

The reporting entity of the Britton-Hecla School District 45-4 (the School District) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The School District is financially accountable if its governing board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the School District (primary government). The School District may also be financially accountable for another organization if that organization is fiscally dependent on the School District. The School District has no component units.

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

Basis of Presentation

The financial statements of the School District have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard setting body for governmental accounting and financial reporting.

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

Fund financial statements of the School District 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, deferred outflows liabilities, deferred inflows, fund equity, revenues, and expenditures/ expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the School District or it meets the following criteria:

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principle activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary services.

The funds of the School District are described below within their respective fund types:

Governmental Funds

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

Special Revenue Fund Types – Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Capital Outlay, Special Education and Pension Funds are the special revenue funds maintained by the School District.

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

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

Pension Fund – A fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts which have established such systems, paying the School District's share of retirement plan contributions, and for funding early retirement benefits to qualifying employees. This fund is financed by property taxes. This is a major fund. This fund was closed at the end of 2020.

Proprietary Funds

Enterprise Fund Types – Enterprise funds are used to account for operations (a) that 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 used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

Other Enterprise Fund – An enterprise fund maintained by the School District to record financial transactions related to the driver's ed and after school programs. This fund is financed by user charges. This is a major fund.

Fiduciary Funds

Fiduciary funds are never considered to be major funds.

Agency Fund Types – Agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature, they do not involve the measurement of results of operations. The School District maintains agency funds to hold assets as an agent in a trustee capacity for student funds generated within the School District by the students or other School District organizations.

Private-Purpose Trust Fund Types – Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The School District maintains the following private-purpose trust funds, which are used for the purpose of providing scholarships to students:

- Cermack Scholarship Fund
- Oak Leaf Fund

Measurement Focus and Basis of Accounting

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

Measurement Focus

Government-Wide Financial Statements – In the government-wide statement of net position and statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements – In the fund financial statements, the current financial resources measurement focus and the modified accrual basis of accounting are applied to governmental fund types, while the economic resources measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary fund types.

Basis of Accounting

Government-Wide Financial Statements – In the government-wide statement of net position and statement of activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements – All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues generally are recognized when they become measurable and available. “Available” means resources are collected within the current period or soon enough after the end of the fiscal year that they can be used to pay liabilities of the current period. The accrual period for the School District is sixty days.

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.

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.

Fund Financial Statements

Noncurrent portions of long-term interfund receivables are reported as nonspendable fund balance to the extent that the proceeds from the collection of those receivables are not restricted, committed, or assigned. Current portions of interfund receivables are considered “available spendable resources” and are reported in the appropriate fund balance category.

Inventory

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out (FIFO). Donated commodities are valued at estimated market value based on the USDA price list at date of receipt. In the government-wide financial statements and the proprietary funds in the fund financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the governmental fund financial statements, inventories in the General Fund and special revenue funds exist from time to time and consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a nonspendable fund balance which indicates that they do not constitute “available spendable resources” even though they are a component of net current assets. The School District did not have any material amounts of inventory in the General Fund or special revenue funds as of June 30, 2020.

Capital Assets

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

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

Government-Wide 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 acquisition value on the date donated.

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

The total June 30, 2020, balance of capital assets for governmental activities includes approximately 11% for which the costs were determined by estimates of the original costs. The total June 30, 2020, balance of capital assets for business-type activities includes approximately 6% for which the costs were determined by estimates of the original costs. The estimated original costs for capital assets for governmental activities were based upon the appraisals, and the estimations of capital assets for business-type activities were established by reviewing applicable historical costs and basing the estimations thereon.

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

| | Capitalization Threshold | Depreciation Method | Estimated Useful Life |
|-------------------------|-----------------------------|------------------------|--------------------------|
| Land* | All | N/A | N/A |
| Improvements | \$ 10,000 | Straight-line | 25-50 years |
| Buildings | 20,000 | Straight-line | 20 years |
| Machinery and equipment | 5,000 | Straight-line | 5-20 years |
| Food service equipment | 1,000 | Straight-line | 12-15 years |

**Land is an inexhaustible capital asset and is not depreciated*

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

Long-Term Debt and Other Long-Term Liabilities

The accounting treatment of long-term debt and other 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 debt and other liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt primarily consist of long-term bonds, notes payable, and SD SDBF assessment. The other long-term liabilities consist of capital leases, early retirement payables, and compensated absences.

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

Program Revenues

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

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

Property Taxes

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

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

Proprietary Funds Revenue and Expense Classifications

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

In the proprietary fund's statement of activities, revenues and expenses are classified in a manner consistent with how they are classified in the statement of cash flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

Cash and Cash Equivalents

The School District pools its cash resources for deposit purposes. Accordingly, the enterprise fund has access to its cash resources on demand. Accordingly, all reported enterprise fund deposit balances are considered to be cash equivalents for the purpose of the statement of cash flows. For the purpose of financial reporting, “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less.

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 assets with constraints 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 assets that do not meet the definition of “restricted” or “net investment in capital assets.”

Fund Financial Statements

Governmental fund equity is classified as fund balance, and may distinguish between non-spendable, restricted, committed, assigned, and unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net position held in trust for other purposes.

Application of Net Position

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

Fund Balance Classification Policies and Procedures

The School District classifies governmental fund balances as follows:

- Nonspendable – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

- Committed – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Fund balance may be assigned by the School Board 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 School District uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar-for-dollar spending. Additionally, the government would first use committed, then assigned, and, lastly, unassigned amounts of unrestricted fund balance when expenditures are made.

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

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

| <u>Major Special Revenue Fund</u> | <u>Revenue Source</u> |
|-----------------------------------|---------------------------|
| Capital Outlay | Property taxes and grants |
| Special Education | Property taxes and grants |
| Pension | Property taxes |

Pension

For purposes of measuring the net pension liability (asset), deferred outflows/inflows of resources, and pension expense and revenue, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deductions from SDRS’s fiduciary net position have been determined on the same basis as they are reported by SDRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and, so, will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has two items that qualify for reporting in this category, which are the contributions made to pension plans after the measurement date and prior to the fiscal year-end, and changes in the net pension liability (asset) not included in pension revenue/expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The School District has two types of items that qualify for reporting in this category. The School District reports unavailable revenues from property taxes and other sources on the government-wide statement of net position and the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item is changes in the net pension liability (asset) not included in pension revenue/expense reported in the government-wide statement of net position.

Rounding

Computer generated rounding variances exist in the basic financial statements and required supplementary information. The variances result from values being entered with cents rather than as whole numbers.

Note 2 - Deposits and Investments Credit Risk, Concentrations of Credit Risk, and Interest Rate Risk

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

Deposits

The School 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% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating, which may not be less than "AA," or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost plus interest if the account is of the add-on type.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit income from investments in each respective fund.

Concentration of Credit Risk: The School District places no limit on the amount that the School District may deposit in any one financial institution.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the School District’s deposits may not be returned. The School District’s deposit policy requires deposits in excess of the depository insurance maximums to be 100% collateralized as required by South Dakota Codified Law. The financial institutions where the collateral is held must be a member of the FDIC. As of June 30, 2020, the financial institution that holds the School District’s deposits was properly collateralized.

The actual bank balances at June 30, 2020, were as follows:

| | |
|--|----------------------------|
| Insured (FDIC/NCUA) | \$ 250,000 |
| Uninsured, collateral jointly held by state's/School District's agent in the name of the state and the pledging financial institution | <u>1,991,158</u> |
| | <u><u>\$ 2,241,158</u></u> |

The School District’s carrying amount of deposits at June 30, 2020, was \$2,242,264. Reconciliation of deposits to the government-wide statement of net assets:

| | |
|--|----------------------------|
| Cash and cash equivalents | \$ 2,106,052 |
| Add: Fiduciary funds cash (not included in government-wide statement of net position) | <u>136,212</u> |
| Total carrying amounts of deposits at June 30, 2020 | <u><u>\$ 2,242,264</u></u> |

Investments

In general, SDCL 4-5-6 permits School District funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or (c) 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 may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent. There were no investments held as of June 30, 2020.

Custodial Credit Risk Investments: The risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does not have an investment policy for custodial risk.

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

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

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

Note 3 - Receivables and Payables

Receivables and payables are aggregated in the government-wide financial statements. However, the fund financial statements present the receivable and payable information in a non-aggregated format. The amount recorded as due from other governments consists of \$19,165 from federal sources, \$146,315 from state sources, and \$147,384 from county sources for reimbursements, grant revenue, and utility tax revenues. The School District expects all receivables to be collected within one year. Based on the nature of the receivables, no allowances for estimated uncollectible amounts have been established.

Note 4 - Changes in Capital Assets

A summary of changes in capital assets for the year ended June 30, 2020, is as follows:

| <u>Primary Government Governmental Activities</u> | <u>Balance 7/1/2019</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance 6/30/2020</u> |
|---|-----------------------------|---------------------|------------------|------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 152,762 | \$ - | \$ - | \$ 152,762 |
| Total not being depreciated | <u>152,762</u> | <u>-</u> | <u>-</u> | <u>152,762</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 12,606,979 | 115,674 | - | 12,722,653 |
| Improvements | 3,258,044 | 115,317 | - | 3,373,361 |
| Machinery and equipment | 1,684,986 | 186,766 | 191,655 | 1,680,097 |
| Total being depreciated | <u>17,550,009</u> | <u>417,757</u> | <u>191,655</u> | <u>17,776,111</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 3,359,822 | 280,658 | - | 3,640,480 |
| Improvements | 1,742,174 | 159,546 | - | 1,901,720 |
| Machinery and equipment | 1,119,720 | 107,839 | 169,559 | 1,058,000 |
| Total accumulated depreciation | <u>6,221,716</u> | <u>548,043</u> | <u>169,559</u> | <u>6,600,200</u> |
| Total capital assets being depreciated, net | <u>11,328,293</u> | <u>(130,286)</u> | <u>22,096</u> | <u>11,175,911</u> |
| Governmental activity capital assets, net | <u>\$ 11,481,055</u> | <u>\$ (130,286)</u> | <u>\$ 22,096</u> | <u>\$ 11,328,673</u> |

Depreciation expense was charged to functions as follows:

| | |
|--|-------------------|
| Governmental activities: | |
| Instruction | \$ 216,089 |
| Support services | 171,247 |
| Co-curricular | 160,707 |
| Total depreciation expense - governmental activities | <u>\$ 548,043</u> |

Britton-Hecla School District 45-4
Notes to Financial Statements
June 30, 2020

| <u>Business-Type Activities</u> | <u>Balance 7/1/2019</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance 6/30/2020</u> |
|--|-----------------------------|------------------|------------------|------------------------------|
| Capital assets being depreciated | | | | |
| Machinery and equipment | \$ 132,509 | \$ 42,711 | \$ 19,621 | \$ 155,599 |
| Total being depreciated | <u>132,509</u> | <u>42,711</u> | <u>19,621</u> | <u>155,599</u> |
| Less accumulated depreciation for: | | | | |
| Machinery and equipment | 66,029 | 6,467 | 17,305 | 55,191 |
| Total accumulated depreciation | <u>66,029</u> | <u>6,467</u> | <u>17,305</u> | <u>55,191</u> |
| Total capital assets being depreciated, net | <u>66,480</u> | <u>36,244</u> | <u>2,316</u> | <u>100,408</u> |
| Business-type activities capital assets, net | <u>\$ 66,480</u> | <u>\$ 36,244</u> | <u>\$ 2,316</u> | <u>\$ 100,408</u> |

Depreciation expense was charged to functions as follows:

| | |
|---|-----------------|
| Business-type activities: | |
| Food services | \$ 6,467 |
| Total depreciation expense - business-type activities | <u>\$ 6,467</u> |

Note 5 - Long-Term Debt

A summary of the changes in long-term debt for the year ended June 30, 2020, is as follows:

| | <u>July 1, 2019</u> | <u>Increases</u> | <u>Decreases</u> | <u>June 30, 2020</u> | <u>Due in One Year</u> |
|--|---------------------|------------------|-------------------|----------------------|----------------------------|
| Governmental activities: | | | | | |
| Capital Outlay certificates, Series 2015 | \$ 6,385,000 | \$ - | \$ 335,000 | \$ 6,050,000 | \$ 340,000 |
| Other long-term debt - State loan | 121,270 | - | 24,254 | 97,016 | 24,254 |
| SD SDBF Assessment | 70,550 | - | 35,010 | 35,540 | 35,540 |
| Unamortized premium | 90,617 | - | 5,665 | 84,952 | 5,663 |
| | <u>\$ 6,667,437</u> | <u>\$ -</u> | <u>\$ 399,929</u> | <u>\$ 6,267,508</u> | <u>\$ 405,457</u> |

Debt payable at June 30, 2020, is comprised of the following:

Capital Outlay Certificates

Capital Outlay Certificates Series 2015, annual principal payments due starting January 2020 ending January 2035, and semi-annual interest payments due each January and July until 2035, interest rates ranging from 1.40% to 3.5%, paid from Capital Outlay Fund. \$ 6,050,000

Other Long-Term Liabilities

State loan, annual principal payments due each July until 2023, interest rate of 0%, paid from Capital Outlay Fund. 97,016

SD SDBF assessment payment as a result of the deficit position of the fund paid in 4 annual installments; final payment in October 2020 (see Note 10). 35,540

Plus unamortized premium 84,952

\$ 6,267,508

The SD SDBF assessment was assessed to the School District as a result of the deficit position of the fund. The School Board decided to pay the assessment in 4 annual installment payments from October 2017 through October 2020 (See Note 10). This assessment is a non-interest bearing note.

The annual debt service requirements to maturity for all debt outstanding as of June 30, 2020, are as follows:

| Year Ending | Capital Outlay Certificates | | State Loan | SD Health Insurance Assessment | Total | |
|-------------|-----------------------------|---------------------|------------------|--------------------------------|---------------------|---------------------|
| | Principal | Interest | Principal | Principal | Principal | Interest |
| 2021 | \$ 340,000 | \$ 171,095 | \$ 24,254 | \$ 35,540 | \$ 399,794 | \$ 171,095 |
| 2022 | 345,000 | 165,441 | 24,254 | - | 369,254 | 165,441 |
| 2023 | 350,000 | 159,098 | 24,254 | - | 374,254 | 159,098 |
| 2024 | 355,000 | 151,335 | 24,254 | - | 379,254 | 151,335 |
| 2025 | 365,000 | 142,335 | - | - | 365,000 | 142,335 |
| 2026-2030 | 1,980,000 | 562,283 | - | - | 1,980,000 | 562,283 |
| 2031-2035 | 2,315,000 | 208,341 | - | - | 2,315,000 | 208,341 |
| | <u>\$ 6,050,000</u> | <u>\$ 1,559,928</u> | <u>\$ 97,016</u> | <u>\$ 35,540</u> | <u>\$ 6,182,556</u> | <u>\$ 1,559,928</u> |

Note 6 - Other Long-Term Liabilities

Other long-term liabilities at June 30, 2020, is comprised of the following:

| | |
|--|-------------------------|
| Compensated absences, payments for vacation leave paid from the fund from which the employee is generally compensated. | <u><u>\$ 19,778</u></u> |
|--|-------------------------|

During the year ended June 30, 2020, the School District had the following changes in other long-term liabilities:

| | July 1, 2019 | Increases | Decreases | June 30, 2020 | Due in One Year |
|-------------------------------|------------------|-----------------|------------------|------------------|--------------------|
| Governmental activities: | | | | | |
| 2015 Capital Lease - copiers | \$ 12,093 | \$ - | \$ 12,093 | \$ - | \$ - |
| 2015 Capital Lease - printers | 2,088 | - | 2,088 | - | - |
| Early retirement benefits | 8,400 | - | 8,400 | - | - |
| Compensated absences | 17,690 | 2,088 | - | 19,778 | 19,778 |
| | <u>\$ 40,271</u> | <u>\$ 2,088</u> | <u>\$ 22,581</u> | <u>\$ 19,778</u> | <u>\$ 19,778</u> |

Note 7 - Early Retirement Benefits

The School District has an early retirement policy in which the employee will receive a benefit calculated based on the number of years service to the School District multiplied by \$300 plus \$2,400 per year until they reach the age of 62 payable directly to the retiree. The employee must meet the following criteria: the employee has served the School District for at least fifteen years and is between the ages of 55 and 63 as of September 1 of the retirement year. The maximum number of recipients approved in any one year shall not exceed three, and those closest to age 62 shall receive first consideration to determine the priority of the recipients. During the 2020 fiscal year, there were no employees approved to receive the benefits.

Note 8 - Restricted Net Position

The following table shows the net assets restricted for other purposes as shown on the statement of net assets:

| Restriction | Restricted By | Amount |
|-----------------------------|---------------|---------------------|
| Capital Outlay | Law | \$ 725,068 |
| Special Education | Law | 87,100 |
| SDRS Pension Plan | Pension Plan | 436,146 |
| Total restricted net assets | | <u>\$ 1,248,314</u> |

Note 9 - Joint Venture - NESC

Northeast Educational Services Cooperative No. 28-201, PO Box 327; Hayti, South Dakota 57241; 605-783-3607.

The School District participates in Northeast Educational Services Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education and other services to member schools. The School District's percentage of participation in the co-op is 5.97% based on student counts.

The co-op's governing board has one representative from the school board of each member school. 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 School District retains no equity in the net assets of the co-op but does have responsibility to fund deficits of the co-op in proportion to the relative participation described above.

Separate financial statements of the co-op are available at its business office in Hayti, South Dakota.

As of June 30, 2020, this joint venture had total unaudited fund equity of approximately \$1,785,707.

Note 10 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2020, the School District managed its risks as follows:

The School District is a member of the South Dakota School District Health Benefits Fund (SD SDBF). This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local governmental entities. The School 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 provides for deductibles ranging from \$1,500 to \$3,000, and \$3,000 to \$6,000 for single and family policies, respectively, and 20% coinsurance.

The School District does not carry additional health insurance 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.

At June 30, 2016, the South Dakota School District Health Benefits Fund had a deficit net position. During fiscal year 2017, the Fund issued a fund-wide assessment to all of the districts participating in the Fund to make up this deficit net position. The amount assessed to the School District was \$139,040, which was payable in lump sum or by payment plan. The School District decided to pay the assessment in four annual installments. At June 30, 2020, the South Dakota School District Health Benefits Fund has a positive net position.

Liability Insurance

The School District purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance provider. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation

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

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

Unemployment Benefits

The School 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.

Note 11 - Pension Plan

Plan Information

All employees working more than 20 hours per week during the year participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer, defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <https://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

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

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

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

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

All benefits except those depending on the member’s accumulated contributions are annually increased by the cost-of-living adjustment.

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee’s contribution. The School District’s share of contributions to the SDRS for the fiscal years ending June 30, 2020, 2019, and 2018, were \$140,782, \$139,247, and \$147,768, respectively, equal to the required contributions each year.

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

At June 30, 2019, SDRS is 100.09% funded and, accordingly, has a net pension asset. The proportionate shares of the components of the net pension asset of the South Dakota Retirement System, for the School District as of the measurement period ending June 30, 2019, and reported by the School District as of June 30, 2020, are as follows:

| | |
|---|---------------------------|
| Proportionate share of pension liability | \$ 13,602,693 |
| Less proportionate share of net pension restricted for pension benefits | <u>13,614,260</u> |
| Proportionate share of net pension liability (asset) | <u><u>\$ (11,567)</u></u> |

At June 30, 2020, the School District reported a liability (asset) of \$(11,567) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2019, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the School District’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2019, the School District’s proportion was 0.1091516%, which is a decrease of 0.0093146% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the School District recognized pension expense of \$360,274. At June 30, 2020, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Difference between expected and actual experience | \$ 45,373 | \$ 5,235 |
| Changes in assumption | 399,497 | 163,774 |
| Net difference between projected and actual earnings on pension plan investments | - | 66,636 |
| Changes in proportion and difference between School District contributions and proportionate share of contributions | 77,583 | 3,011 |
| School District contributions subsequent to the measurement date | 140,782 | - |
| Total | \$ 663,235 | \$ 238,656 |

There is \$140,782 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

| Year Ended June 30: | | | |
|---------------------|--|----|----------|
| 2021 | | \$ | 279,142 |
| 2022 | | | (11,671) |
| 2023 | | | (10,537) |
| 2024 | | | 26,863 |
| Total | | \$ | 283,797 |

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | | |
|------------------|-------|--|
| Inflation | 2.25% | |
| Salary increases | | Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service |
| Discount rate | | 6.50% net of plan investment expense |
| Future COLAs | 1.88% | |

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

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of 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, 2019 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------|--------------------------|---|
| Global Equity | 58.0% | 4.7% |
| Fixed Income | 30.0% | 1.7% |
| Real Estate | 10.0% | 4.3% |
| Cash | 2.0% | 0.9% |
| | <u>100.0%</u> | |
| Total | <u>100.0%</u> | |

Discount Rate

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

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

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

| | 1% Decrease | Current Discount Rate | 1% Increase |
|--|--------------|--------------------------|----------------|
| School District's proportionate share of the net pension liability (asset) | \$ 1,919,909 | \$ (11,567) | \$ (1,585,371) |

Pension Plan Fiduciary Net Position

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

Note 12 - Interfund Transactions and Balances

During the year ended June 30, 2020, the Pension Fund transferred \$252,750 to the General Fund to close the Pension Fund. Additionally, as of June 30, 2020, there was an interfund payable of \$7,626 owed from the Other Enterprise Fund to the Food Service Fund. The purpose of this interfund balance is to provide additional working capital to the Other Enterprise Fund, and it is expected to be repaid within one year.

Note 13 - Fund Deficit

The Other Enterprise Fund is reporting a net deficit of \$8,973 as of June 30, 2020. The School District plans to continue to monitor the revenue and expenses of the fund to ensure the deficit can be made up. If the deficit grows, the School District will determine if a transfer from another fund will be needed to supplement operations.

Note 14 - Commitment and Contingencies

Capital Asset Commitment

During the year ended June 30, 2020, the School approved the purchase of a bus for \$51,881. There were no costs incurred as of June 30, 2020.

Risk Management: COVID-19 Pandemic

During 2020, the world-wide coronavirus pandemic impacted national and global economies. The School District is closely monitoring its operations, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the current and future full impact to the School District is not known.



Required Supplementary Information
June 30, 2020

Britton-Hecla School District 45-4

Britton-Hecla School District 45-4
 Budgetary Comparison Schedule – Budgetary Basis – General Fund
 Year Ended June 30, 2020

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|------------------|------------------|-------------------------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| 1000 Revenue from local sources | | | | |
| 1100 Taxes: | | | | |
| 1110 Ad valorem taxes | \$ 1,891,000 | \$ 1,891,000 | \$ 1,947,494 | \$ 56,494 |
| 1120 Prior year's ad valorem taxes | 15,000 | 15,000 | 19,542 | 4,542 |
| 1140 Gross receipts taxes | 125,000 | 125,000 | 274,180 | 149,180 |
| 1190 Penalties and interest on taxes | 7,500 | 7,500 | 8,665 | 1,165 |
| 1200 Revenue in lieu of taxes | 2,000 | 2,000 | - | (2,000) |
| 1500 Earnings on investments and deposits | 8,000 | 8,000 | 11,925 | 3,925 |
| 1700 Co-curricular activities: | | | | |
| 1710 Admissions | 31,300 | 31,300 | 30,708 | (592) |
| 1740 Rentals | 3,000 | 3,000 | 1,900 | (1,100) |
| 1790 Other pupil activity | 3,600 | 3,600 | 1,105 | (2,495) |
| 1900 Other revenue from local sources: | | | | |
| 1920 Contributions and donations | 2,000 | 2,000 | 1,770 | (230) |
| 1970 Charges for services | 3,000 | 3,000 | 3,671 | 671 |
| 1990 Other | 5,000 | 5,000 | 16,838 | 11,838 |
| 2000 Revenue from intermediate sources | | | | |
| 2100 County sources: | | | | |
| 2110 County apportionment | 35,000 | 35,000 | 37,324 | 2,324 |
| 3000 Revenue from state sources | | | | |
| 3100 Grants-in-aid: | | | | |
| 3110 Unrestricted grants-in-aid | 873,900 | 873,900 | 815,598 | (58,302) |
| 3120 Restricted grants-in-aid | 1,000 | 1,000 | - | (1,000) |
| 3210 Revenue in lieu of taxes | 3,000 | 3,000 | - | (3,000) |
| 4000 Revenue from federal sources | | | | |
| 4100 Grants-in-aid: | | | | |
| 4130 Restricted grants-in-aid received from federal government through an intermediate source | 12,000 | 12,000 | 7,923 | (4,077) |
| 4150-4199 Restricted grants-in-aid received from federal government through the state | 135,588 | 154,611 | 145,980 | (8,631) |
| 4900 Other federal revenue | 12,000 | 12,000 | 24,178 | 12,178 |
| Total revenues | <u>3,168,888</u> | <u>3,187,911</u> | <u>3,348,801</u> | <u>160,890</u> |

Britton-Hecla School District 45-4
 Budgetary Comparison Schedule – Budgetary Basis – General Fund
 Year Ended June 30, 2020

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|-------------------|-------------------|-------------------------------------|---|
| | Original | Final | | |
| Expenditures | | | | |
| 1000 Instruction | | | | |
| 1100 Regular programs: | | | | |
| 1110 Elementary | 1,105,500 | 1,121,623 | 1,028,823 | 92,800 |
| 1120 Middle/junior high | 337,785 | 337,785 | 253,765 | 84,020 |
| 1130 High school | 524,661 | 524,661 | 456,739 | 67,922 |
| 1200 Special programs: | | | | |
| 1270 Educationally deprived | 99,059 | 100,159 | 97,482 | 2,677 |
| 2000 Support services | | | | |
| 2100 Pupils: | | | | |
| 2120 Guidance | 81,175 | 81,175 | 79,030 | 2,145 |
| 2130 Health | 1,500 | 1,500 | 915 | 585 |
| 2200 Support services - instructional staff: | | | | |
| 2210 Improvement of instruction | 35,150 | 36,950 | 20,466 | 16,484 |
| 2220 Educational media | 66,395 | 66,395 | 57,686 | 8,709 |
| 2300 Support services - general administration: | | | | |
| 2310 Board of Education | 39,360 | 39,360 | 27,419 | 11,941 |
| 2320 Executive administration | 145,641 | 145,641 | 143,408 | 2,233 |
| 2400 Support services - school administration: | | | | |
| 2410 Office of the Principal | 156,548 | 156,548 | 160,051 | (3,503) |
| 2490 Other school administrative | 500 | 500 | 401 | 99 |
| 2500 Support services - business: | | | | |
| 2520 Fiscal services | 118,835 | 118,835 | 114,306 | 4,529 |
| 2540 Operation and maintenance of plant | 498,539 | 498,539 | 498,413 | 126 |
| 2550 Pupil transportation | 229,880 | 229,880 | 217,056 | 12,824 |
| 2600 Support services - central: | | | | |
| 2630 Information | - | 1,643 | 1,643 | - |
| 2640 Staff | 750 | 750 | 779 | (29) |
| 6000 Co-curricular activities: | | | | |
| 6100 Male activities | 54,094 | 54,094 | 44,357 | 9,737 |
| 6200 Female activities | 55,210 | 55,210 | 39,384 | 15,826 |
| 6500 Transportation | 7,390 | 7,390 | 5,758 | 1,632 |
| 6900 Combined activities | 100,916 | 100,916 | 73,585 | 27,331 |
| Total expenditures | <u>3,658,888</u> | <u>3,679,554</u> | <u>3,321,466</u> | <u>358,088</u> |
| Excess of Revenues over (under) Expenditures | <u>(490,000)</u> | <u>(491,643)</u> | <u>27,335</u> | <u>518,978</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers in | <u>490,000</u> | <u>490,000</u> | <u>252,750</u> | <u>(237,250)</u> |
| Total other financing sources | <u>490,000</u> | <u>490,000</u> | <u>252,750</u> | <u>(237,250)</u> |
| Net Change in Fund Balances | - | (1,643) | 280,085 | 281,728 |
| Fund Balance - Beginning | <u>648,970</u> | <u>648,970</u> | <u>648,970</u> | <u>-</u> |
| Fund Balance - Ending | <u>\$ 648,970</u> | <u>\$ 647,327</u> | <u>\$ 929,055</u> | <u>\$ 281,728</u> |

Britton-Hecla School District 45-4
 Budgetary Comparison Schedule – Budgetary Basis – Capital Outlay Fund
 Year Ended June 30, 2020

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|--|-------------------|-------------------|-------------------------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| 1000 Revenue from local sources | | | | |
| 1100 Taxes: | | | | |
| 1110 Ad valorem taxes | \$ 1,500,000 | \$ 1,500,000 | \$ 1,492,509 | \$ (7,491) |
| 1120 Prior year's ad valorem taxes | 4,000 | 4,000 | 10,816 | 6,816 |
| 1190 Penalties and interest on taxes | 600 | 600 | 3,145 | 2,545 |
| 1500 Earnings on investments and deposits | 8,000 | 8,000 | 3,921 | (4,079) |
| 1900 Other revenue | | | | |
| 1990 Other local income | 7,000 | 7,000 | - | (7,000) |
| Total revenues | <u>1,519,600</u> | <u>1,519,600</u> | <u>1,510,391</u> | <u>(9,209)</u> |
| Expenditures | | | | |
| 1000 Instruction | | | | |
| 1100 Regular Programs: | | | | |
| 1110 Elementary | 72,018 | 92,203 | 88,430 | 3,773 |
| 1120 Middle School | 30,516 | 35,969 | 32,568 | 3,401 |
| 1130 High School | 55,816 | 56,595 | 20,726 | 35,869 |
| 2000 Support services | | | | |
| 2220 Educational media | - | 654 | 654 | - |
| 2500 Support services - business: | | | | |
| 2520 Fiscal services | - | 2,337 | 2,364 | (27) |
| 2530 Facilities acquisition and construction | 459,353 | 459,353 | 450,406 | 8,947 |
| 2540 Operation and maintenance of plant | 231,230 | 245,229 | 217,269 | 27,960 |
| 2550 Transportation | 83,067 | 83,567 | 83,567 | - |
| 2600 Support services - central: | | | | |
| 2630 Information | 5,000 | 5,000 | 5,000 | - |
| 5000 Debt services | 551,650 | 551,650 | 550,379 | 1,271 |
| 6000 Co-curricular activities | | | | |
| 6100 Male activities | 10,700 | 14,165 | 14,165 | - |
| 6200 Female activities | 22,150 | 22,150 | 22,147 | 3 |
| 6900 Combined activities | 28,500 | 28,500 | 28,428 | 72 |
| Total expenditures | <u>1,550,000</u> | <u>1,597,372</u> | <u>1,516,103</u> | <u>81,269</u> |
| Excess of Revenues over Expenditures | <u>(30,400)</u> | <u>(77,772)</u> | <u>(5,712)</u> | <u>72,060</u> |
| Other Financing Sources | | | | |
| Sale of surplus property | - | - | 1,200 | 1,200 |
| Transfers out | (250,000) | (250,000) | - | 250,000 |
| Total other financing sources | <u>(250,000)</u> | <u>(250,000)</u> | <u>1,200</u> | <u>251,200</u> |
| Net Change in Fund Balances | (280,400) | (327,772) | (4,512) | 323,260 |
| Fund Balance - Beginning | <u>721,194</u> | <u>721,194</u> | <u>721,194</u> | <u>-</u> |
| Fund Balance - Ending | <u>\$ 440,794</u> | <u>\$ 393,422</u> | <u>\$ 716,682</u> | <u>\$ 323,260</u> |

Britton-Hecla School District 45-4
 Budgetary Comparison Schedule – Budgetary Basis – Special Education Fund
 Year Ended June 30, 2020

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|--|------------------|------------------|-------------------------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| 1000 Revenue from local sources | | | | |
| 1100 Taxes: | | | | |
| 1110 Ad valorem taxes | \$ 425,000 | \$ 425,000 | \$ 422,598 | \$ (2,402) |
| 1120 Prior year's ad valorem taxes | 5,000 | 5,000 | 3,036 | (1,964) |
| 1190 Penalties and interest on taxes | 500 | 500 | 917 | 417 |
| 1500 Earnings on investments and deposits | 4,500 | 4,500 | 1,887 | (2,613) |
| 1900 Other revenue from local sources | | | | |
| 1920 Contributions and donations | - | - | 379 | 379 |
| 1970 Charges for services | 4,500 | 4,500 | 4,351 | (149) |
| 1990 Other | 1,000 | 1,000 | 412 | (588) |
| Total revenues | 440,500 | 440,500 | 433,580 | (6,920) |
| Expenditures | | | | |
| 1000 Instruction | | | | |
| 1200 Special programs: | | | | |
| 1220 Programs for special education | 407,065 | 407,065 | 403,989 | 3,076 |
| 2000 Support services | | | | |
| 2100 Pupils: | | | | |
| 2120 Guidance | 800 | 800 | 705 | 95 |
| 2140 Psychological | 17,000 | 17,000 | 14,901 | 2,099 |
| 2150 Speech pathology | 32,000 | 32,000 | 31,735 | 265 |
| 2170 Student therapy services | 24,700 | 24,700 | 20,689 | 4,011 |
| 2200 Support services - instructional staff: | | | | |
| 2210 Improvement of instruction | 500 | 500 | - | 500 |
| 2700 Support services - special education: | | | | |
| 2710 Administration costs | 22,845 | 22,845 | 22,654 | 191 |
| 2730 Transportation costs | 33,725 | 33,725 | 22,544 | 11,181 |
| Total expenditures | 538,635 | 538,635 | 517,217 | 21,418 |
| Net Change in Fund Balances | (98,135) | (98,135) | (83,637) | 14,498 |
| Fund Balance - Beginning | 168,341 | 168,341 | 168,341 | - |
| Fund Balance - Ending | <u>\$ 70,206</u> | <u>\$ 70,206</u> | <u>\$ 84,704</u> | <u>\$ 14,498</u> |

Britton-Hecla School District 45-4
 Budgetary Comparison Schedule – Budgetary Basis – Pension Fund
 Year Ended June 30, 2020

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|--|------------------|------------------|-------------------------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| 1000 Revenue from local sources | | | | |
| 1100 Taxes: | | | | |
| 1120 Prior years' ad valorem taxes | \$ 200 | \$ 200 | \$ 226 | \$ 26 |
| 1190 Penalties and interest on taxes | 75 | 75 | 96 | 21 |
| 1500 Earnings on investments and deposits | 4,000 | 4,000 | 3,545 | (455) |
| Total revenues | <u>4,275</u> | <u>4,275</u> | <u>3,867</u> | <u>(408)</u> |
| Expenditures | | | | |
| 4000 Nonprogrammed charges | | | | |
| 4500 Early retirement payments | 9,488 | 9,488 | 8,944 | 544 |
| Total expenditures | <u>9,488</u> | <u>9,488</u> | <u>8,944</u> | <u>544</u> |
| Excess of Revenues over (under) Expenditures | (5,213) | (5,213) | (5,077) | (136) |
| Other Financing Sources (Uses) | | | | |
| Transfers out | (240,000) | (240,000) | (252,750) | 12,750 |
| Total other financing sources | <u>(240,000)</u> | <u>(240,000)</u> | <u>(252,750)</u> | <u>12,750</u> |
| Net Change in Fund Balances | (245,213) | (245,213) | (257,827) | 12,614 |
| Fund Balance - Beginning | 257,827 | 257,827 | 257,827 | - |
| Fund Balance - Ending | <u>\$ 12,614</u> | <u>\$ 12,614</u> | <u>\$ -</u> | <u>\$ 12,614</u> |

Note 1 - Basis of Presentation

The budgetary comparison schedules have been prepared using the modified accrual basis of accounting. The budgetary comparison schedules present expenditures for capital outlay purposes within each function, while the governmental funds statement of revenues, expenditures and changes in fund balance presents capital outlay expenditures as a separate function.

Note 2 - Budgets and Budgetary Accounting

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

1. Prior to the first regular School Board meeting in May of each year, the School Board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the School Board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.
6. After adoption by the School Board, the operating budget is legally binding at the fund level and actual expenditures of each fund cannot exceed the amounts budgeted for that fund, except as indicated in Number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5% of the total School District budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year. No amount of expenditures may be charged directly to the contingency line item in the budget.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund, Capital Project Funds, and Special Revenue Funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.

Britton-Hecla School District 45-4
 Schedule of Employer's Share of Net Pension Liability (Asset)
 Year Ended June 30, 2020

| Pension Plan | Fiscal Year Ending | Employer's Percentage of the Net Pension Liability/ (Asset) | Employer's Proportionate Share of the Net Pension Liability/ (Asset) (a) | Employer's Covered Payroll (b) | Employer's Proportionate Share of the Net Pension Liability/ (Asset) as a Percentage of its Covered Payroll (a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability/ (Asset) |
|--------------|-----------------------|---|---|--------------------------------------|---|--|
| SDRS | 6/30/2020 | 0.1092% | \$ (11,567) | \$ 2,320,778 | -0.5% | 100.09% |
| SDRS | 6/30/2019 | 0.1185% | (2,763) | 2,462,788 | -0.1% | 100.02% |
| SDRS | 6/30/2018 | 0.1297% | (11,766) | 2,634,242 | -0.4% | 100.1% |
| SDRS | 6/30/2017 | 0.1273% | 430,020 | 2,420,667 | 17.8% | 96.89% |
| SDRS | 6/30/2016 | 0.1267% | (537,274) | 2,312,754 | -23.2% | 104.1% |
| SDRS | 6/30/2015 | 0.1366% | (984,301) | 2,389,132 | -41.2% | 107.3% |

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

Note: The information disclosed for each fiscal year is reported as of the measurement date of the net pension liability (asset) which is June 30 of the preceding fiscal year.

Britton-Hecla School District 45-4
Schedule of Employer's Contributions
Year Ended June 30, 2020

| Pension Plan | Fiscal Year Ending | Statutorily Required Contribution (a) | Contributions in Relation to the Statutorily Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | Covered Payroll (d) | Contributions as a Percentage of Covered Payroll (b/d) |
|--------------|-----------------------|--|---|---|------------------------|--|
| SDRS | 6/30/2020 | \$ 140,782 | \$ 140,782 | \$ - | \$ 2,346,919 | 6.0% |
| SDRS | 6/30/2019 | 139,247 | 139,247 | - | 2,320,778 | 6.0% |
| SDRS | 6/30/2018 | 147,768 | 147,768 | - | 2,462,788 | 6.0% |
| SDRS | 6/30/2017 | 158,055 | 158,055 | - | 2,634,242 | 6.0% |
| SDRS | 6/30/2016 | 145,241 | 145,241 | - | 2,420,667 | 6.0% |
| SDRS | 6/30/2015 | 138,766 | 138,766 | - | 2,312,754 | 6.0% |

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

Changes in Benefit Terms

No significant changes.

Changes of Assumptions

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that, if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2018, and exists again this year as of June 30, 2019. Future COLAs are assumed to equal the current restricted maximum COLA which was 2.03% as of June 30, 2018 and is 1.88% as of June 30, 2019.

The changes in actuarial assumptions decreased the Actuarial Accrued Liability by 1.5% of the Actuarial Accrued Liability based on the 2.03% COLA, reflecting the current and assumed future restricted maximum COLA of 1.88%.

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



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the School Board
Britton-Hecla School District 45-4
Britton, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Britton-Hecla School District 45-4 (the School District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School District’s basic financial statements, and have issued our report thereon dated January 8, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District’s internal control over financial reporting (internal control) 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 School District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the School District’s internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as 2020-001 and 2020-002 that we consider to be material weaknesses.

Compliance and Other Matters

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

The School District's responses to the findings identified in our audit are described in the schedule of findings. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 School 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 School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Handwritten signature of Eric Sully LLP in cursive script.

Aberdeen, South Dakota
January 8, 2021

Current Audit Findings and Recommendations

Finding 2020-001 - Lack of Segregation of Duties

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition: Britton-Hecla School District 45-4 has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions because of a lack of segregation of duties.

Cause: The School District has insufficient number of staff to adequately separate duties.

Effect: This condition increases the risk that fraud or errors might occur in the financial reporting process and not be detected.

Recommendation: Although it is recognized that the number of office staff may not be large enough to permit an adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the School Board exercise adequate oversight of the accounting function.

Views of Responsible Officials: Management agrees with the finding.

Finding 2020-002 - Preparation of Financial Statements and Footnotes including Significant Audit Journal Entries

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

Condition: Britton-Hecla School District 45-4 requested the external auditors to assist in the preparation of the financial statements and related footnotes for the year ended June 30, 2020. As part of the financial statement preparation process, at times we propose material audit adjustments that are not identified as a result of the School District's existing internal controls and, therefore, could result in a misstatement of the School District's financial statements.

Cause: The limited size of the School District's staff and resources causes the inability to prepare the financial statements and footnotes and could cause the need for auditors to, at times, propose material journal entries.

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

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

Views of Responsible Officials: Management agrees with the finding.