



Financial Statements
June 30, 2018

Britton-Hecla School District 45-4

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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, 2018, 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, 2018, 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 37 through 45 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 14, 2019 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 14, 2019

Britton-Hecla School District 45-4
Statement of Net Position
June 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,278,716	\$ 115,215	\$ 2,393,931
Taxes receivable	1,649,938	-	1,649,938
Due from other governments	331,616	12,800	344,416
Inventories	-	6,887	6,887
Net pension asset	11,470	296	11,766
Capital assets:			
Land	152,762	-	152,762
Other capital assets, net of depreciation	11,300,547	37,752	11,338,299
Total assets	<u>15,725,049</u>	<u>172,950</u>	<u>15,897,999</u>
Deferred Outflows of Resources			
Pension related deferred outflows	1,231,598	31,709	1,263,307
	<u>\$ 16,956,647</u>	<u>\$ 204,659</u>	<u>\$ 17,161,306</u>
Liabilities			
Accounts payable	\$ 68,911	\$ 9,400	\$ 78,311
Other current liabilities	373,605	4,707	378,312
Unearned revenue	-	7,037	7,037
Noncurrent liabilities:			
Due within one year	504,495	-	504,495
Due in more than one year	6,690,660	-	6,690,660
Total liabilities	<u>7,637,671</u>	<u>21,144</u>	<u>7,658,815</u>
Deferred Inflows of Resources			
Pension related deferred inflows	228,485	5,882	234,367
Taxes levied for future period	1,867,997	-	1,867,997
Total deferred inflows of resources	<u>2,096,482</u>	<u>5,882</u>	<u>2,102,364</u>
Net Position			
Net investment in capital assets	4,403,632	37,752	4,441,384
Restricted for:			
Capital Outlay	742,423	-	742,423
Special Education	255,845	-	255,845
Pension	446,432	-	446,432
SDRS Pension Benefits	1,014,583	26,123	1,040,706
Unrestricted	359,579	113,758	473,337
Total net position	<u>7,222,494</u>	<u>177,633</u>	<u>7,400,127</u>
	<u>\$ 16,956,647</u>	<u>\$ 204,659</u>	<u>\$ 17,161,306</u>

Britton-Hecla School District 45-4
Statement of Activities
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government						
Governmental activities:						
Instruction	\$ 2,438,950	\$ -	\$ 218,596	\$ (2,220,354)	\$ -	\$ (2,220,354)
Support services	1,494,745	-	-	(1,494,745)	-	(1,494,745)
*Interest on long-term debt	154,233	-	-	(154,233)	-	(154,233)
Cocurricular activities	313,893	36,290	-	(277,603)	-	(277,603)
Total governmental activities	<u>4,401,821</u>	<u>36,290</u>	<u>218,596</u>	<u>(4,146,935)</u>	<u>-</u>	<u>(4,146,935)</u>
Business-type activities:						
Food service	246,088	101,753	165,918	-	21,583	21,583
Driver's education	4,477	4,425	-	-	(52)	(52)
After school programs	9,614	10,430	-	-	816	816
Total business-type activities	<u>260,179</u>	<u>116,608</u>	<u>165,918</u>	<u>-</u>	<u>22,347</u>	<u>22,347</u>
Total primary government	<u>\$ 4,662,000</u>	<u>\$ 152,898</u>	<u>\$ 384,514</u>	<u>(4,146,935)</u>	<u>22,347</u>	<u>(4,124,588)</u>
General Revenues						
Taxes:						
Property taxes				3,655,876	-	3,655,876
Other taxes				250,321	-	250,321
Revenue from state sources:						
State aid				754,476	-	754,476
Unrestricted investment earnings				26,146	1,710	27,856
Other general revenues				48,392	-	48,392
Total general revenues				<u>4,735,211</u>	<u>1,710</u>	<u>4,736,921</u>
Change in Net Position				588,276	24,057	612,333
Net Position - Beginning				<u>6,634,218</u>	<u>153,576</u>	<u>6,787,794</u>
Net Position - Ending				<u>\$ 7,222,494</u>	<u>\$ 177,633</u>	<u>\$ 7,400,127</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, 2018

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 683,418	\$ 836,301	\$ 313,274	\$ 445,723	\$ 2,278,716
Taxes receivable - current	805,384	651,498	162,958	-	1,619,840
Taxes receivable - delinquent	17,683	8,635	3,071	709	30,098
Due from other governments	331,430	-	186	-	331,616
	<u>\$ 1,837,915</u>	<u>\$ 1,496,434</u>	<u>\$ 479,489</u>	<u>\$ 446,432</u>	<u>\$ 4,260,270</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities					
Accounts payable	\$ 68,734	\$ 177	\$ -	\$ -	\$ 68,911
Contracts payable	257,395	-	26,831	-	284,226
Payroll deductions and withholdings and employer matching payable	81,122	-	8,257	-	89,379
Total liabilities	<u>407,251</u>	<u>177</u>	<u>35,088</u>	<u>-</u>	<u>442,516</u>
Deferred Inflows of Resources					
Taxes levied for future period	925,607	753,834	188,556	-	1,867,997
Unavailable revenue-utility taxes	106,546	-	-	-	106,546
Unavailable revenue-delinquent property taxes	17,683	8,635	3,071	709	30,098
Total deferred inflows of resources	<u>1,049,836</u>	<u>762,469</u>	<u>191,627</u>	<u>709</u>	<u>2,004,641</u>
Fund Balances					
Restricted:					
Capital Outlay	-	733,788	-	-	733,788
Special Education	-	-	252,774	-	252,774
Pension	-	-	-	445,723	445,723
Assigned (subsequent year's budget)	215,924	-	-	-	215,924
Unassigned	164,904	-	-	-	164,904
Total fund balances	<u>380,828</u>	<u>733,788</u>	<u>252,774</u>	<u>445,723</u>	<u>1,813,113</u>
	<u>\$ 1,837,915</u>	<u>\$ 1,496,434</u>	<u>\$ 479,489</u>	<u>\$ 446,432</u>	<u>\$ 4,260,270</u>

Britton-Hecla School District 45-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
Year Ended June 30, 2018

Total Fund Balances - Governmental Funds	\$ 1,813,113
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.	11,453,309
Long-term liabilities, including bonds payable and notes payable, are not due and payables in the current period and, therefore, are not reported in the funds.	(7,195,155)
Assets such as taxes receivable (delinquent and utility) are not available to pay for current period expenditures and, therefore, are deferred in the funds.	136,644
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>1,014,583</u>
Net Position - Governmental Funds	<u><u>\$ 7,222,494</u></u>

Britton-Hecla School District 45-4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2018

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
Revenues					
Revenue from local sources					
Taxes:					
Ad valorem taxes	\$ 1,837,772	\$ 1,402,733	\$ 384,929	\$ -	\$ 3,625,434
Prior year's ad valorem taxes	7,330	4,429	1,451	187	13,397
Tax deed revenue	-	133	33	-	166
Gross receipts taxes	143,775	-	-	-	143,775
Penalties and interest on taxes	6,144	2,219	689	38	9,090
Earnings on investments and deposits	7,216	7,538	3,902	7,490	26,146
Cocurricular activities:					
Admissions	32,825	-	-	-	32,825
Rentals	950	-	-	-	950
Other pupil activity	2,515	-	-	-	2,515
Other revenue from local sources:					
Contributions and donations	1,650	-	501	-	2,151
Charges for services	3,840	-	3,079	-	6,919
Other	4,629	7,738	1,693	-	14,060
Revenue from intermediate sources:					
County sources:					
County apportionment	28,604	-	-	-	28,604
Revenue from State sources:					
Grants-in-aid:					
Unrestricted grants-in-aid	754,476	-	-	-	754,476
Restricted grants-in-aid	33,924	-	-	-	33,924
Revenue from Federal sources:					
Grants-in-aid:					
Restricted grants-in-aid received from Federal Government through the State	155,380	-	-	-	155,380
Other Federal revenue	22,373	-	-	-	22,373
Total revenues	<u>3,043,403</u>	<u>1,424,790</u>	<u>396,277</u>	<u>7,715</u>	<u>4,872,185</u>

Britton-Hecla School District 45-4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2018

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
Expenditures					
Instruction					
Regular programs:					
Elementary	1,180,820	7,798	-	-	1,188,618
Middle/junior high	223,419	34,342	-	-	257,761
High school	567,091	4,789	-	-	571,880
Special programs:					
Programs for special education	-	-	358,534	-	358,534
Educationally deprived	113,405	-	-	-	113,405
Support services					
Pupils:					
Guidance	77,227	-	797	-	78,024
Health	1,119	-	-	-	1,119
Psychological	-	-	15,586	-	15,586
Speech pathology	-	-	34,770	-	34,770
Audiology services	-	-	111	-	111
Student therapy services	-	-	24,547	-	24,547
Support services - instructional staff:					
Improvement of instruction	10,152	-	-	-	10,152
Educational media	55,678	-	-	-	55,678
Support services - general administration:					
Board of education	33,238	-	-	-	33,238
Executive administration	120,319	-	-	-	120,319
Support services - school administration:					
Office of the principal	176,615	2,834	-	-	179,449
Other school administrative	412	-	-	-	412
Support services - business:					
Fiscal services	149,095	1,978	-	-	151,073
Facilities acquisition and construction	-	10,628	-	-	10,628
Operation and maintenance of plant	466,260	21,347	-	-	487,607
Pupil transportation	222,215	-	-	-	222,215
Support services - central:					
Staff	476	-	-	-	476

Britton-Hecla School District 45-4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2018

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
Support services - special education:					
Administrative costs	-	-	21,887	-	21,887
Transportation costs	-	-	4,682	-	4,682
Nonprogrammed charges:					
Early retirement payments	-	-	-	11,397	11,397
Debt services	-	615,699	-	-	615,699
Cocurricular activities:					
Male activities	45,938	3,164	-	-	49,102
Female activities	40,448	2,644	-	-	43,092
Transportation	7,808	-	-	-	7,808
Combined activities	78,043	9,981	-	-	88,024
Capital outlay	-	575,561	-	-	575,561
Total expenditures	<u>3,569,778</u>	<u>1,290,765</u>	<u>460,914</u>	<u>11,397</u>	<u>5,332,854</u>
Other Financing Sources					
Transfers in	400,000	-	-	-	400,000
Transfers out	-	(250,000)	-	(150,000)	(400,000)
Compensation for property loss	1,411	2,166	-	-	3,577
Total other financing sources	<u>401,411</u>	<u>(247,834)</u>	<u>-</u>	<u>(150,000)</u>	<u>3,577</u>
Net Change in Fund Balances	(124,964)	(113,809)	(64,637)	(153,682)	(457,092)
Fund Balance - Beginning	<u>505,792</u>	<u>847,597</u>	<u>317,411</u>	<u>599,405</u>	<u>2,270,205</u>
Fund Balance - Ending	<u>\$ 380,828</u>	<u>\$ 733,788</u>	<u>\$ 252,774</u>	<u>\$ 445,723</u>	<u>\$ 1,813,113</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, 2018

Net Change in Fund Balances - Total Governmental Funds	\$ (457,092)
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 depreciation (\$509,613) was exceeded by capital outlay (\$575,561) in the current period.	65,948
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."	114,336
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.	2,728
Governmental funds do not reflect the change in early retirement debt, but the effects of this debt are reflected in the statement of activities.	(4,790)
Governmental funds report the effect of premium 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.	5,663
Repayment of bond and other long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	461,466
Revenues and reduction of expenses related to pensions do not provide current financial resources and, therefore, are not reported in the funds.	400,017
Change in Net Position of Governmental Activities	<u>\$ 588,276</u>

Britton-Hecla School District 45-4
Statement of Net Position – Proprietary Funds
June 30, 2018

	Other Enterprise Fund	Food Service Fund	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ -	\$ 115,215	\$ 115,215
Due from other enterprise fund	-	4,168	4,168
Due from state government	-	12,800	12,800
Inventory of supplies	-	543	543
Inventory of stores purchased for resale	-	3,471	3,471
Inventory of donated food	-	2,873	2,873
Total current assets	<u>-</u>	<u>139,070</u>	<u>139,070</u>
Noncurrent Assets			
Net pension asset	44	252	296
Capital Assets:			
Machinery and equipment - local funds	-	106,049	106,049
Accumulated depreciation - machinery and equipment - local funds	-	(68,297)	(68,297)
Total noncurrent assets	<u>44</u>	<u>38,004</u>	<u>38,048</u>
Deferred Outflows of Resources			
Pension related deferred outflows	4,674	27,035	31,709
	<u>\$ 4,718</u>	<u>\$ 204,109</u>	<u>\$ 208,827</u>
Liabilities			
Current Liabilities			
Accounts payable	\$ 238	\$ 9,162	\$ 9,400
Contracts payable	2,559	1,362	3,921
Benefits payable	514	272	786
Due to food service fund	4,168	-	4,168
Unearned revenue	-	7,037	7,037
Total current liabilities	<u>7,479</u>	<u>17,833</u>	<u>25,312</u>
Deferred Inflows of Resources			
Pension related deferred inflows	867	5,015	5,882
Net Position			
Net investment in capital assets	-	37,752	37,752
Restricted for SDRS benefits	3,851	22,272	26,123
Unrestricted net position	<u>(7,479)</u>	<u>121,237</u>	<u>113,758</u>
Total net position (deficit)	<u>(3,628)</u>	<u>181,261</u>	<u>177,633</u>
	<u>\$ 4,718</u>	<u>\$ 204,109</u>	<u>\$ 208,827</u>

Britton-Hecla School District 45-4
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds
Year Ended June 30, 2018

	Other Enterprise Fund	Food Service Fund	Total
Operating Revenues			
Tuition and Fees			
Student tuition	\$ 14,855	\$ -	\$ 14,855
Food Sales			
To pupils	-	96,042	96,042
To adults	-	5,421	5,421
Other	-	290	290
Total operating revenues	<u>14,855</u>	<u>101,753</u>	<u>116,608</u>
Operating Expenses			
Salaries	11,628	65,808	77,436
Employee benefits	839	3,521	4,360
Purchased services	75	64,704	64,779
Supplies	1,549	3,220	4,769
Cost of sales - purchased food	-	84,713	84,713
Cost of sales - donated food	-	18,219	18,219
Depreciation - local funds	-	5,903	5,903
Total operating expenses	<u>14,091</u>	<u>246,088</u>	<u>260,179</u>
Operating Income (Loss)	<u>764</u>	<u>(144,335)</u>	<u>(143,571)</u>
Nonoperating Revenues			
Investment earnings	-	1,710	1,710
State sources:			
Cash reimbursements	-	902	902
Federal sources:			
Cash reimbursements	-	148,610	148,610
Donated food	-	16,406	16,406
Total nonoperating revenues	<u>-</u>	<u>167,628</u>	<u>167,628</u>
Change in Net Position	764	23,293	24,057
Net Position (Deficit) - Beginning	<u>(4,392)</u>	<u>157,968</u>	<u>153,576</u>
Net Position (Deficit) - Ending	<u>\$ (3,628)</u>	<u>\$ 181,261</u>	<u>\$ 177,633</u>

Britton-Hecla School District 45-4
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2018

	Other Enterprise Fund	Food Service Fund	Total
Cash Flows from (used for) Operating Activities			
Receipts from customers	\$ 14,855	\$ 109,470	\$ 124,325
Payments to suppliers	(1,956)	(153,728)	(155,684)
Payments to employees	(12,899)	(73,920)	(86,819)
Net Cash used for Operating Activities	-	(118,178)	(118,178)
Cash Flows from Noncapital Financing Activities			
Operating subsidies	-	149,512	149,512
Net Cash from Noncapital Financing Activities	-	149,512	149,512
Cash Flows from (used for) Investing Activities			
Purchase of property, plant, and equipment	-	(13,613)	(13,613)
Interest earnings	-	1,710	1,710
Net Cash used for Investing Activities	-	(11,903)	(11,903)
Change in Cash and Cash Equivalents	-	19,431	19,431
Cash and Cash Equivalents Beginning of Year	-	95,784	95,784
Cash and Cash Equivalents End of Year	\$ -	\$ 115,215	\$ 115,215
Reconciliation of Operating Income (Loss) to Net Cash from (used for) Operating Activities:			
Operating income (loss)	\$ 764	\$ (144,335)	\$ (143,571)
Adjustments to reconcile operating income (loss) to net cash from (used for) operating activities:			
Depreciation expense	-	5,903	5,903
Value of donated commodities used	-	18,219	18,219
Change in assets and liabilities:			
Receivables	-	6,515	6,515
Due from other fund	-	298	298
Inventories	-	37	37
Pension asset and deferred outflows	166	(1,782)	(1,616)
Pension liability and deferred inflows	(819)	(4,150)	(4,969)
Payables	187	(85)	102
Due to other fund	(298)	-	(298)
Deferred revenue	-	1,202	1,202
Net Cash used for Operating Activities	\$ -	\$ (118,178)	\$ (118,178)
Noncash Investing, Capital and Financing Activities			
Value of commodities received	\$ -	\$ 16,406	\$ 16,406

Britton-Hecla School District 45-4
Statement of Fiduciary Net Position
June 30, 2018

	Private Purpose Trust Fund	Agency Fund
Assets		
Cash and cash equivalents	\$ 5,335	\$ 122,786
	\$ 5,335	\$ 122,786
Liabilities		
Amounts held for others	\$ -	\$ 122,786
Total liabilities	-	122,786
Net Position		
Net position held in trust for scholarships	5,335	-
Total net position	5,335	-
	\$ 5,335	\$ 122,786

Britton-Hecla School District 45-4
Statement of Changes in Fiduciary Net Position
June 30, 2018

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

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. The revenues, which are accrued at June 30, 2018, are due from the counties and state government.

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 non-spendable 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, 2018.

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 estimated fair 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, 2018 balance of capital assets for governmental activities includes approximately 12% for which the costs were determined by estimates of the original costs. The total June 30, 2018 balance of capital assets for business-type activities include approximately 9% 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 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 Liabilities

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of long-term bonds, notes payable, capital leases, and SD SDBF assessment.

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 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 or 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, grants and State aid
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, 2018, the financial institution that holds the School District's deposits was not properly collateralized, and the deposits at that institution were exposed to custodial credit risk as follows:

Depository Name	Percent Under-Collateralized	At-Risk Amount
First Savings Bank of Britton	4.54%	\$ 103,014

The actual bank balances at June 30, 2018 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	2,269,033
	\$ 2,519,033

Reconciliation of deposits to the government-wide statement of net assets:

Cash and cash equivalents	\$ 2,393,931
Add: Fiduciary funds cash (not included in government-wide statement of net assets)	128,121
Total carrying amounts of deposits at June 30, 2018	\$ 2,522,052

Investments

In general, SDCL 4-5-6 permits School District funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) 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, 2018.

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 \$203,255 from State sources and \$128,361 from County sources for 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, 2018 is as follows:

<u>Primary Government Governmental Activities</u>	<u>Balance 7/1/2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2018</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	12,038,243	387,193	-	12,425,436
Improvements	2,982,825	52,829	-	3,035,654
Machinery and equipment	<u>1,533,525</u>	<u>135,539</u>	<u>-</u>	<u>1,669,064</u>
Total being depreciated	<u>16,554,593</u>	<u>575,561</u>	<u>-</u>	<u>17,130,154</u>
Less accumulated depreciation for:				
Buildings	2,814,212	266,289	-	3,080,501
Improvements	1,451,521	142,715	-	1,594,236
Machinery and equipment	<u>1,054,261</u>	<u>100,609</u>	<u>-</u>	<u>1,154,870</u>
Total accumulated depreciation	<u>5,319,994</u>	<u>509,613</u>	<u>-</u>	<u>5,829,607</u>
Total capital assets being depreciated, net	<u>11,234,599</u>	<u>65,948</u>	<u>-</u>	<u>11,300,547</u>
Governmental activity capital assets, net	<u>\$ 11,387,361</u>	<u>\$ 65,948</u>	<u>\$ -</u>	<u>\$ 11,453,309</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 211,857
Support services	159,168
Co-curricular	<u>138,588</u>
Total depreciation expense - governmental activities	<u>\$ 509,613</u>

Britton-Hecla School District 45-4
Notes to Financial Statements
June 30, 2018

<u>Business-Type Activities</u>	<u>Balance 7/1/2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2018</u>
Capital assets being depreciated				
Machinery and equipment	\$ 93,835	\$ 13,614	\$ 1,400	\$ 106,049
Total being depreciated	<u>93,835</u>	<u>13,614</u>	<u>1,400</u>	<u>106,049</u>
Less accumulated depreciation for:				
Machinery and equipment	63,794	5,903	1,400	68,297
Total accumulated depreciation	<u>63,794</u>	<u>5,903</u>	<u>1,400</u>	<u>68,297</u>
Total capital assets being depreciated, net	<u>30,041</u>	<u>7,711</u>	<u>-</u>	<u>37,752</u>
Business-type activities capital assets, net	<u>\$ 30,041</u>	<u>\$ 7,711</u>	<u>\$ -</u>	<u>\$ 37,752</u>

Depreciation expense was charged to functions as follows:

Business-type activities:	
Food services	<u>\$ 5,903</u>
Total depreciation expense - business-type activities	<u>\$ 5,903</u>

Note 5 - Long-Term Liabilities

A summary of the changes in long-term liabilities for the year ended June 30, 2018 is as follows:

	<u>July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2018</u>	<u>Due in One Year</u>
Governmental activities:					
Capital Outlay certificates, Series 2016	\$ 785,000	\$ -	\$ 390,000	\$ 395,000	\$ 395,000
Capital Outlay certificates, Series 2015	6,385,000	-	-	6,385,000	-
Other long-term debt - State loan	169,778	-	24,254	145,524	24,254
SD SDBF Assessment	139,040	-	33,990	105,050	34,500
2015 Capital Lease - copiers	35,044	-	11,275	23,769	11,677
2015 Capital Lease - printers	6,051	-	1,947	4,104	2,016
Early retirement benefits	27,129	16,416	11,626	31,919	22,876
Compensated absences	11,237	-	2,728	8,509	8,509
Unamortized premium	101,943	-	5,663	96,280	5,663
	<u>\$ 7,660,222</u>	<u>\$ 16,416</u>	<u>\$ 481,483</u>	<u>\$ 7,195,155</u>	<u>\$ 504,495</u>

Debt payable at June 30, 2018 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.	\$ 6,385,000
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Capital Outlay Certificates Series 2016, annual principal payments due each January until 2019, and semi-annual interest payments due each January and July until 2019, interest rates ranging from .850% to 1.35%, paid from Capital Outlay Fund.	395,000
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Other Long-Term Liabilities

State loan, annual principal payments due each July until 2023, interest rate of 0%, paid from Capital Outlay Fund.	145,524
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Copier Lease with Century Business Products, Inc., 3.5% interest rate, monthly payments of \$1,027, paid from Capital Outlay Fund.	23,769
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Printer Lease with Century Business Products, Inc., 3.5% interest rate, monthly payments of \$177, paid from Capital Outlay Fund.	4,104
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Early Retirement, requires annual payments of not more than \$22,876 from the Pension Fund or General Fund; final payment in June 2020.	31,919
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Compensated absences, payments for vacation leave paid from the fund from which the employee is generally compensated.	8,509
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Plus unamortized premium	96,280
	\$ 7,090,105

The SD SDBF assessment consists of \$105,050 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 9)

The annual debt service requirements to maturity for all debt outstanding as of June 30, 2018 are as follows:

<u>Year Ending</u>	<u>Capital Outlay Certificates</u>		<u>Capital Leases</u>		<u>State Loan</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2019	\$ 395,000	\$ 181,086	\$ 13,693	\$ 757	\$ 24,254
2020	335,000	176,075	14,180	270	24,254
2021	340,000	171,095	-	-	24,254
2022	345,000	165,441	-	-	24,254
2023	350,000	159,098	-	-	24,254
2023-2027	1,875,000	666,899	-	-	24,254
2028-2032	2,165,000	363,000	-	-	-
2033-2037	975,000	34,388	-	-	-
	<u>\$ 6,780,000</u>	<u>\$ 1,917,082</u>	<u>\$ 27,873</u>	<u>\$ 1,027</u>	<u>\$ 145,524</u>

<u>Year Ending</u>	<u>Early Retirement Benefits</u>	<u>SD Health Insurance Assessment</u>		<u>Total</u>	
	<u>Principal</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 22,876	\$ 34,500	\$ -	\$ 490,323	\$ 181,843
2020	9,043	35,010	-	417,487	176,345
2021	-	35,540	-	399,794	171,095
2022	-	-	-	369,254	165,441
2023	-	-	-	374,254	159,098
2023-2027	-	-	-	1,899,254	666,899
2028-2032	-	-	-	2,165,000	363,000
2033-2037	-	-	-	975,000	34,388
	<u>\$ 31,919</u>	<u>\$ 105,050</u>	<u>\$ -</u>	<u>\$ 7,090,366</u>	<u>\$ 1,918,109</u>

Note 6 - 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 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 2018 fiscal year, there was one employee approved to receive the benefits.

Note 7 - Restricted Net Position

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

<u>Restriction</u>	<u>Restricted By</u>	<u>Amount</u>
Special Education	Law	\$ 255,845
Capital Outlay	Law	742,423
Pension	Law	446,432
SDRS Pension Plan	Pension Plan	<u>1,040,706</u>
Total restricted net assets		<u><u>\$ 2,485,406</u></u>

Note 8 - 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 5.75% 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, 2018, this joint venture had total unaudited fund equity of approximately \$1,540,667.

Note 9 - 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, 2018, 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 a \$1,000 to \$2,500 deductible per person up to \$2,000 to \$5,000 per family, 80/20% coinsurance with up to 80% of \$10,000 to \$20,000 and a lifetime maximum of \$2,000,000 per person.

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, 2018, 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 provided workers' compensation insurance coverage for participating members of the pool. The objective of the fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the fund to resolve any worker's compensation claims. The School District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the fund members. The School District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to \$1,000,000 per individual per incident.

The School District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage 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 10 - 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 <http://www.sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7% prior to 2008 and 1.55% thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4% for service prior to 2008 and 2.0% thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733% for service prior to 2008 and 3.333% thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more — 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
 - 90.0% to 99.9% funded — 2.1% minimum and 2.8% maximum COLA
 - 80.0% to 90.0% funded — 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% — 2.1% COLA

The 2017 legislation modified the COLA, effective for the July 1, 2018 increase:

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

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. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ending June 30, 2018, 2017 and 2016 were \$147,768, \$158,055, and \$145,241, 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, 2017, SDRS is 100.1% 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, 2017 and reported by the School District as of June 30, 2018 are as follows:

Proportionate share of pension liability	\$ 15,084,893
Less proportionate share of net pension restricted for pension benefits	<u>15,096,659</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (11,766)</u></u>

At June 30, 2018, the School District reported a liability (asset) of \$(11,766) for its proportionate share of the net pension liability. The net pension liability (asset) was measured as of June 30, 2017 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, 2017, the School District's proportion was 0.12965140%, which is an increase of 0.0023477% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School District recognized a reduction of pension expense of \$(258,834). At June 30, 2017, 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	\$ 188,524	\$ -
Changes in assumption	913,557	-
Net difference between projected and actual earnings on pension plan investments	-	226,213
Changes in proportion and difference between School District contributions and proportionate share of contributions	13,458	8,154
School District contributions subsequent to the measurement date	<u>147,768</u>	<u>-</u>
Total	<u><u>\$ 1,263,307</u></u>	<u><u>\$ 234,367</u></u>

There is \$147,768 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, 2019. 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:			
2019		\$	244,334
2020			400,350
2021			291,079
2022			(54,591)
			(54,591)
Total		\$	881,172

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2017 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%
Discount rate	6.50% net of plan investment expense

Mortality rates were based on 97% of the RP- 2014 Mortality Table, projected generationally with Scale 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, projected generationally with Scale MP-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, 2017 (see the discussion of the pension plan’s investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
Total	100.0%	

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 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:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net pension liability (asset)	\$ 2,154,941	\$ (11,766)	\$ (1,776,170)

Pension Plan Fiduciary Net Position

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

Note 11 - Interfund Transactions and Balances

During the year ended June 30, 2018, the capital outlay fund transferred \$250,000 to the general fund as allowed by SDCL 13-16-6 to cover certain operating expenses and the pension fund transferred \$150,000 to the general fund for retirement contributions. Additionally, as of June 30, 2018, there was an interfund payable of \$4,168 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.



Required Supplementary Information
June 30, 2018

Britton-Hecla School District 45-4

Britton-Hecla School District 45-4
 Budgetary Comparison Schedule – Budgetary Basis – General Fund
 Year Ended June 30, 2018

	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	\$ 1,800,000	\$ 1,800,000	\$ 1,837,772	\$ 37,772
1120 Prior year's ad valorem taxes	15,000	15,000	7,330	(7,670)
1140 Gross receipts taxes	125,000	125,000	143,775	18,775
1190 Penalties and interest on taxes	7,500	7,500	6,144	(1,356)
1200 Revenue in lieu of taxes	2,000	2,000	-	(2,000)
1500 Earnings on investments and deposits	1,500	1,500	7,216	5,716
1700 Cocurricular activities:				
1710 Admissions	29,500	29,500	32,825	3,325
1740 Rentals	3,000	3,000	950	(2,050)
1790 Other pupil activity	4,100	4,100	2,515	(1,585)
1900 Other revenue from local sources:				
1920 Contributions and donations	1,000	1,000	1,650	650
1970 Charges for services	3,000	3,000	3,840	840
1990 Other	5,000	5,000	4,629	(371)
2000 Revenue from intermediate sources				
2100 County sources:				
2110 County apportionment	35,000	35,000	28,604	(6,396)
3000 Revenue from State sources				
3100 Grants-in-aid:				
3110 Unrestricted grants-in-aid	735,000	735,000	754,476	19,476
3120 Restricted grants-in-aid	1,000	33,239	33,924	685
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	-	(12,000)
4150-4199 Restricted grants-in-aid received from Federal Government through the State	156,158	156,158	155,380	(778)
4900 Other federal revenue	12,000	12,000	22,373	10,373
Total revenues	<u>2,950,758</u>	<u>2,982,997</u>	<u>3,043,403</u>	<u>60,406</u>

Britton-Hecla School District 45-4
 Budgetary Comparison Schedule – Budgetary Basis – General Fund
 Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
1000 Instruction				
1100 Regular programs:				
1110 Elementary	1,184,800	1,195,546	1,180,820	14,726
1120 Middle/junior high	236,286	247,032	223,419	23,613
1130 High school	568,263	579,009	567,091	11,918
1200 Special programs:				
1270 Educationally deprived	117,608	117,608	113,405	4,203
2000 Support services				
2100 Pupils:				
2120 Guidance	78,748	78,748	77,227	1,521
2130 Health	1,500	1,500	1,119	381
2200 Support services - instructional staff:				
2210 Improvement of instruction	27,650	27,650	10,152	17,498
2220 Educational media	52,821	52,821	55,678	(2,857)
2300 Support services - general administration:				
2310 Board of education	36,370	36,370	33,238	3,132
2320 Executive administration	123,013	123,013	120,319	2,694
2400 Support services - school administration:				
2410 Office of the Principal	187,552	187,552	176,615	10,937
2490 Other school administrative	500	500	412	88
2500 Support services - business:				
2520 Fiscal services	132,029	132,029	149,095	(17,066)
2540 Operation and maintenance of plant	456,957	456,957	466,260	(9,303)
2550 Pupil transportation	228,452	228,452	222,215	6,237
2600 Support services - central:				
2640 Staff	500	500	476	24
6000 Cocurricular activities:				
6100 Male activities	48,450	48,450	45,938	2,512
6200 Female activities	45,465	45,465	40,448	5,017
6500 Transportation	6,810	6,810	7,808	(998)
6900 Combined activities	107,000	107,000	78,043	28,957
Total expenditures	<u>3,640,774</u>	<u>3,673,012</u>	<u>3,569,778</u>	<u>103,234</u>
Excess of Revenues over (under) Expenditures	<u>(690,016)</u>	<u>(690,015)</u>	<u>(526,375)</u>	<u>163,640</u>
Other Financing Sources (Uses)				
Transfers in	400,000	400,000	400,000	-
Compensation for property loss	-	-	1,411	1,411
Total other financing sources	<u>400,000</u>	<u>400,000</u>	<u>401,411</u>	<u>1,411</u>
Net Change in Fund Balances	(290,016)	(290,015)	(124,964)	165,051
Fund Balance - Beginning	<u>505,792</u>	<u>505,792</u>	<u>505,792</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 215,776</u>	<u>\$ 215,777</u>	<u>\$ 380,828</u>	<u>\$ 165,051</u>

Britton-Hecla School District 45-4
Budgetary Comparison Schedule – Budgetary Basis – Capital Outlay Fund
Year Ended June 30, 2018

	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	\$ 1,404,905	\$ 1,404,905	\$ 1,402,733	\$ (2,172)
1120 Prior year's ad valorem taxes	5,000	5,000	4,429	(571)
1130 Tax deed revenue	-	-	133	133
1190 Penalties and interest on taxes	600	600	2,219	1,619
1500 Earnings on investments and deposits	1,000	1,000	7,538	6,538
1900 Other revenue				
1990 Other local income	1,000	1,000	7,738	6,738
Total revenues	<u>1,412,505</u>	<u>1,412,505</u>	<u>1,424,790</u>	<u>12,285</u>
Expenditures				
1000 Instruction				
1100 Regular Programs:				
1110 Elementary	17,515	17,515	7,798	9,717
1120 Middle School	45,015	45,015	34,342	10,673
1130 High School	19,016	19,016	4,789	14,227
2000 Support services				
2410 Office of the principal	2,600	2,600	2,834	(234)
2500 Support services - business:				
2520 Fiscal services	2,000	2,000	1,978	22
2530 Facilities acquisition and construction	652,030	652,030	498,556	153,474
2540 Operation and maintenance of plant	82,000	82,000	67,113	14,887
2550 Transportation	10,000	51,867	41,867	10,000
5000 Debt services	616,029	616,029	615,699	330
6000 Cocurricular activities				
6100 Male activities	7,400	7,400	3,164	4,236
6200 Female activities	1,400	1,400	2,644	(1,244)
6900 Combined activities	7,500	7,500	9,981	(2,481)
Total expenditures	<u>1,462,505</u>	<u>1,504,372</u>	<u>1,290,765</u>	<u>213,607</u>
Excess of Revenues over (under) Expenditures	<u>(50,000)</u>	<u>(91,867)</u>	<u>134,025</u>	<u>225,892</u>
Other Financing Sources				
Transfers out	(250,000)	(250,000)	(250,000)	-
Compensation for property loss	-	-	2,166	2,166
Total other financing sources	<u>(250,000)</u>	<u>(250,000)</u>	<u>(247,834)</u>	<u>2,166</u>
Net Change in Fund Balances	(300,000)	(341,867)	(113,809)	228,058
Fund Balance - Beginning	<u>847,597</u>	<u>847,597</u>	<u>847,597</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 547,597</u>	<u>\$ 505,730</u>	<u>\$ 733,788</u>	<u>\$ 228,058</u>

Britton-Hecla School District 45-4
 Budgetary Comparison Schedule – Budgetary Basis – Special Education Fund
 Year Ended June 30, 2018

	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	\$ 387,000	\$ 387,000	\$ 384,929	\$ (2,071)
1120 Prior year's ad valorem taxes	5,000	5,000	1,451	(3,549)
1130 Tax deed revenue	-	-	33	33
1190 Penalties and interest on taxes	500	500	689	189
1500 Earnings on investments and deposits	1,000	1,000	3,902	2,902
1900 Other revenue from local sources				
1920 Contributions and donations	-	-	501	501
1970 Charges for services	5,500	5,500	3,079	(2,421)
1990 Other	500	500	1,693	1,193
Total revenues	<u>399,500</u>	<u>399,500</u>	<u>396,277</u>	<u>(3,223)</u>
Expenditures				
1000 Instruction				
1200 Special programs:				
1220 Programs for special education	395,771	395,771	358,534	37,237
2000 Support services				
2100 Pupils:				
2120 Guidance	1,420	1,420	797	623
2140 Psychological	16,840	16,840	15,586	1,254
2150 Speech pathology	35,020	35,020	34,770	250
2160 Audiology services	-	-	111	(111)
2170 Student therapy services	29,865	29,865	24,547	5,318
2200 Support services - instructional staff:				
2210 Improvement of instruction	500	500	-	500
2700 Support services - special education:				
2710 Administration costs	22,201	22,201	21,887	314
2730 Transportation costs	1,500	1,500	4,682	(3,182)
Total expenditures	<u>503,117</u>	<u>503,117</u>	<u>460,914</u>	<u>42,203</u>
Net Change in Fund Balances	(103,617)	(103,617)	(64,637)	38,980
Fund Balance - Beginning	<u>317,411</u>	<u>317,411</u>	<u>317,411</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 213,794</u>	<u>\$ 213,794</u>	<u>\$ 252,774</u>	<u>\$ 38,980</u>

Britton-Hecla School District 45-4
 Budgetary Comparison Schedule – Budgetary Basis – Pension Fund
 Year Ended June 30, 2018

	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	\$ 600	\$ 600	\$ 187	\$ (413)
1190 Penalties and interest on taxes	100	100	38	(62)
1500 Earnings on investments and deposits	<u>1,000</u>	<u>1,000</u>	<u>7,490</u>	<u>6,490</u>
Total revenues	<u>1,700</u>	<u>1,700</u>	<u>7,715</u>	<u>6,015</u>
Expenditures				
4000 Nonprogrammed charges				
4500 Early retirement payments	<u>11,650</u>	<u>11,650</u>	<u>11,397</u>	<u>253</u>
Total expenditures	<u>11,650</u>	<u>11,650</u>	<u>11,397</u>	<u>253</u>
Excess of Revenues over (under) Expenditures	(9,950)	(9,950)	(3,682)	6,268
Other Financing Sources (Uses)				
Transfers out	<u>(150,000)</u>	<u>(150,000)</u>	<u>(150,000)</u>	<u>-</u>
Total other financing sources	<u>(150,000)</u>	<u>(150,000)</u>	<u>(150,000)</u>	<u>-</u>
Net Change in Fund Balances	(159,950)	(159,950)	(153,682)	6,268
Fund Balance - Beginning	<u>599,405</u>	<u>599,405</u>	<u>599,405</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 439,455</u>	<u>\$ 439,455</u>	<u>\$ 445,723</u>	<u>\$ 6,268</u>

Note 1 - Basis of Presentation

The financial statements prepared in conformity with accounting principles generally accepted in the United States of America present capital outlay expenditure information in a separate category of expenditures. The budgetary comparison schedules have been prepared on the budgetary basis of accounting. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate.

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 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. Generally accepted accounting principles prescribe that budgetary information be presented for the General Fund and special revenue funds of the School District only.

Britton-Hecla School District 45-4
Schedule of Employer's Share of Net Pension Liability (Asset)
Year Ended June 30, 2018

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	6/30/2017	0.1297%	\$ (11,766)	\$ 2,634,242	-0.4%	100.1%
SDRS	6/30/2016	0.1273%	430,020	2,420,667	17.8%	96.9%
SDRS	6/30/2015	0.1267%	(537,274)	2,312,754	-23.2%	104.1%
SDRS	6/30/2014	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, 2018

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions in Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered Payroll (d)</u>	<u>Contributions as a Percentage of Covered Payroll (b/d)</u>
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

Notes to Required Supplementary Information

Changes of Benefit Terms:

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 exists this year and limits the maximum COLA payable in 2018 to 1.89%.

Legislation was also enacted in 2017 to:

- Modify the definition of Compensation to clarify included and excluded items,
- Expand the caps on increases in Compensation considered in Final Average Compensation,
- Extend the Final Average Compensation period from the current three years to five years for Foundation Members after a phase-in period, and
- Limit Compensation to the Internal Revenue Code Section 401(a)(17) limits for all Members, regardless of date of entry into SDRS.

Changes of Assumptions:

As a result of an experience analysis covering the period from July 1, 2011 to June 30, 2016, significant changes to the actuarial assumptions were recommended by the SDRS Senior Actuary and adopted by the Board of Trustees first effective for the June 30, 2017 Actuarial Valuation. The changes to economic assumptions were very significant, and included reducing the inflation assumption to 2.25%, reducing the investment return assumption to 6.5% and reducing the payroll growth assumption to 3.00%. The demographic assumption changes were less impactful. Among those changes were new mortality assumptions, updated retirement, termination and disability rates and updated salary increase assumptions.

The Actuarial Asset Valuation Method was changed to the Fair Value of Assets. In addition, the Funding Method was changed from the Frozen Entry Age Actuarial Cost Method to the Entry Age Actuarial Cost Method, which was in use for GASB Statement Nos. 67 and 68 purposes.



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, 2018, 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 14, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings as 2018-A and 2018-B to be material weaknesses.

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.

Compliance and Other Matters

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

School District's Response to Findings

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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Aberdeen, South Dakota
January 14, 2019

Status of Prior Audit Recommendations

Finding 2017-A

There was a lack of segregation of duties that may result in internal control over financial reporting and compliance to be inadequate.

Current Status: This has not been corrected and is restated as current audit findings 2018-A.

Finding 2017-B

There was a lack of internal control in the preparation of the financial statements and footnotes and significant journal entries that may result in a misstatement of the School District's financial statements.

Current Status: This has not been corrected and is restated as current audit findings 2018-B.

Current Audit Findings and Recommendations

Finding 2018-A 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 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 2018-B 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, 2018. 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 cause 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.