

SPEARFISH SCHOOL DISTRICT NO. 40-2

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2020



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

ktllp.com

SPEARFISH SCHOOL DISTRICT NO. 40-2

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor’s Report	4-5
Management’s Discussion and Analysis	6-14
<i>Government-wide Financial Statements:</i>	
Statement of Net Position	15
Statement of Activities	16
<i>Fund Financial Statements:</i>	
Governmental Funds Balance Sheet	17-18
Reconciliation of Governmental Funds Balance Sheet to Government-wide Statement of Net Position.	19
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances	20-23
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to Government-wide Statement of Activities	24
Proprietary Funds Balance Sheet	25
Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position.	26
Proprietary Funds Statement of Cash Flows	27
Statement of Fiduciary Net Position	28
Statement of Changes in Fiduciary Net Position.	29
Notes to Financial Statements	30-48
<i>Required Supplementary Information:</i>	
Budgetary Comparison Schedule – Budgetary Basis - General Fund.	50-52
Budgetary Comparison Schedule – Budgetary Basis - Capital Outlay Fund	53-54
Budgetary Comparison Schedule – Budgetary Basis - Special Education Fund.	55
Budgetary Comparison Schedule – Budgetary Basis - Pension Tax Fund	56
Schedule of the District Contributions	57
Schedule of the District’s Proportionate Share of the Net Pension (Asset)/Liability	58
Notes to Required Supplementary Information	59-60

SPEARFISH SCHOOL DISTRICT NO. 40-2

TABLE OF CONTENTS (CONTINUED)

	<u>PAGE</u>
<i>Single Audit Section:</i>	
Schedule of Expenditures of Federal Awards	62-63
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 <i>Government Auditing Standards</i>	64-65
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.	66-67
Schedule of Findings	68-69
<i>Management Response:</i>	
Summary Schedule of Prior Audit Findings	71
Corrective Action Plan	72



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

810 Quincy Street

P.O. Box 3140, Rapid City, South Dakota 57709

Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

INDEPENDENT AUDITOR'S REPORT

School Board
Spearfish School District No. 40-2
Lawrence County, 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 **SPEARFISH SCHOOL DISTRICT NO. 40-2** (the District), Lawrence County, South Dakota, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the 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 District, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information, Schedule of the District Contributions, and the Schedule of the District's Proportionate Share of the Net Pension (Asset)/Liability on pages 6 through 14 and 50 through 60, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, on pages 62 through 63, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2021 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

January 11, 2021

SPEARFISH SCHOOL DISTRICT NO. 40-2

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEAR ENDED JUNE 30, 2020

This section of the District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2020. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position from governmental and business-type activities increased \$1,335,949.
- The total cost of the District's programs increased by approximately 2 percent, primarily due to salary and corresponding benefits increases.
- The general fund reported a \$4,900,158 current year fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District government, reporting the District's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services were financed in the short-term, as well as what remains for future spending.
 - Proprietary fund statements offer short and long-term financial information about the activities that the school operates like businesses. The proprietary funds operated by the District are Food Service and Driver's Education.
 - Fiduciary fund statements provide information about the financial relationships - like scholarship plans for graduating students - in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

SPEARFISH SCHOOL DISTRICT NO. 40-2

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in the District's property tax base and changes in the state school aid funding formula from the State of South Dakota.

The government-wide financial statements of the District are reported in two categories:

- **Governmental Activities** - This category includes the District's basic instructional services (elementary, high school educational programs, etc.), support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.) and capital equipment purchases. Property taxes, state grants, federal grants and interest earnings finance most of these activities.
- **Business-Type Activities** - The District charges a fee to students to help cover the costs of providing lunch services to all students. The District also charges for services provided to teach Driver's Education for the community. The Food Service and Driver's Education Funds are the business-type activities of the District.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- State law requires some of the funds.
- The School Board establishes other funds to control and manage money for particular purposes.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

The District has three kinds of funds:

- **Governmental Funds** – Most of the District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances remaining at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are greater or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service and Driver's Education Funds are the proprietary funds maintained by the District.
- **Fiduciary Funds** – The District is the trustee, or fiduciary, for various external and internal parties. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Figure A-1 summarizes the major features of the District’s financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of the overview section of the management’s discussion and analysis explains the structure and contents of each of the statements.

Figure A-1				
	Government-wide Statements	Fund Statements		
Scope	Entire District government (except fiduciary funds)	Governmental Funds	Proprietary Funds	Fiduciary Funds
		The activities of the District that are not proprietary or fiduciary, such as elementary and high school education programs	Activities the District operates similar to private business- food service and driver's education	Instances in which the District is the trustee or agent for someone else's resources
Required Financial Statements	Statement of Net Position and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances	Balance Sheet; Statement of Revenues, Expenses and Changes in Fund Net Position; and Statement of Cash Flows	Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/ Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets although they can
Type of Inflow/ Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position increased as follows:

	Table A-1					
	Governmental Activities		Business-Type Activities		Total	
	2019	2020	2019	2020	2019	2020
Current and Other Assets	\$ 18,763,644	\$ 20,188,680	\$ 171,074	\$ 252,360	\$ 18,934,718	\$ 20,441,040
Capital Assets	32,687,355	32,538,885	11,425	8,815	32,698,780	32,547,700
Total Assets	51,450,999	52,727,565	182,499	261,175	51,633,498	52,988,740
Pension Related Deferred Outflows of Resources	\$ 3,366,450	\$ 1,736,878	\$ 6,265	\$ 2,972	\$ 3,372,715	\$ 1,739,850
Long-Term Liabilities	\$ 8,575,053	\$ 6,530,888	\$ -	\$ -	\$ 8,575,053	\$ 6,530,888
Other Liabilities	1,536,289	1,625,444	7,426	4,840	1,543,715	1,630,284
Total Liabilities	10,111,342	8,156,332	7,426	4,840	10,118,768	8,161,172
Taxes Levied for Future Period	\$ 5,883,873	\$ 6,227,897	\$ -	\$ -	\$ 5,883,873	\$ 6,227,897
Net Position:						
Net Investment in Capital Assets	\$ 24,404,685	\$ 26,132,664	\$ 11,425	\$ 8,815	\$ 24,416,110	\$ 26,141,479
Restricted	9,763,752	9,190,929	6,288	3,069	9,770,040	9,193,998
Unrestricted	4,653,797	4,756,621	163,625	247,423	4,817,422	5,004,044
Total Net Position	\$ 38,822,234	\$ 40,080,214	\$ 181,338	\$ 259,307	\$ 39,003,572	\$ 40,339,521
Beginning Net Position	\$ 37,182,450	\$ 38,822,234	\$ 131,912	\$ 181,338	\$ 37,314,362	\$ 39,003,572
Change in Net Position	\$ 1,639,784	\$ 1,257,980	\$ 49,426	\$ 77,969	\$ 1,689,210	\$ 1,335,949
Percentage of Change in Net Position	4.41%	3.24%	37.47%	43.00%	4.53%	3.43%

This section explains the differences between the current and prior year's assets, liabilities, and changes in net position.

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the District, consisting of compensated absences payable and early retirement benefits payable, have been reported in this manner on the Statement of Net Position. The difference between the District's assets and liabilities is its net position.

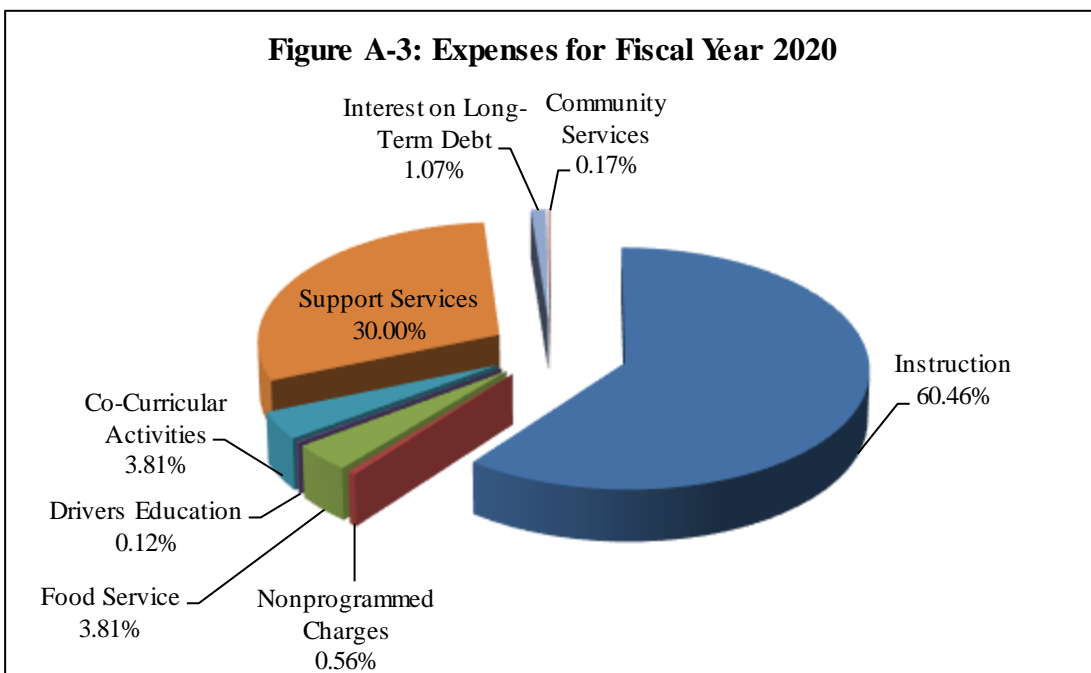
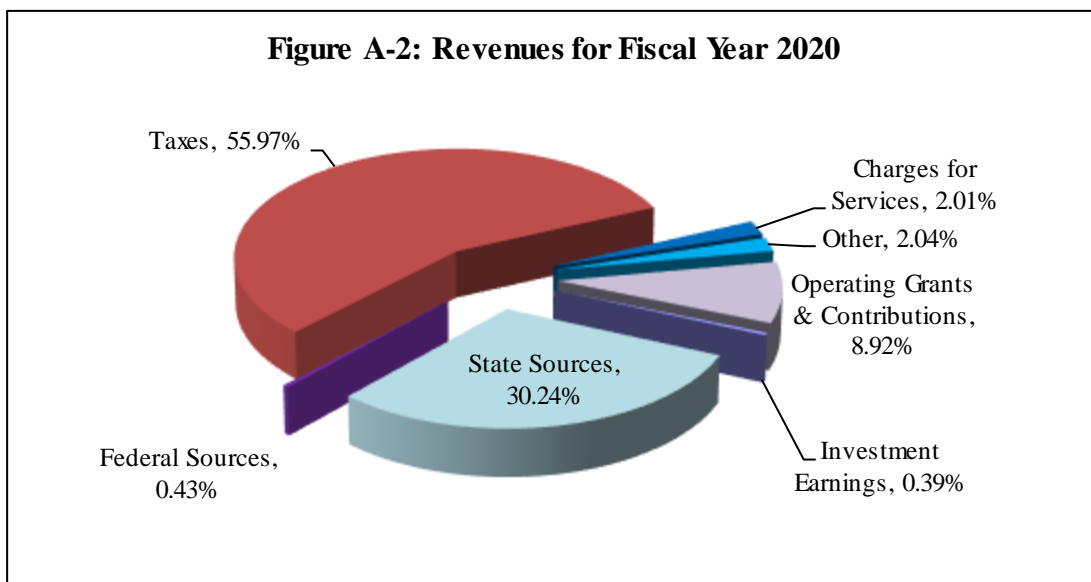
SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

This section illustrates condensed financial comparison of revenues and expenses and provides explanations for significant differences. The District's revenues totaled \$24,569,172 for the year ended June 30, 2020. (See Table A-2.) Approximately 56 percent of the District's revenue comes from property and other taxes, with another 30 percent coming from state aid. (See Figure A-2). The total cost of all programs and services was \$23,233,223 for the year. The District's expenses cover a range of services, encompassing instruction, support services, and food services. (See Figure A-3)



SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

Table A-2 and the narrative that follows consider the operations of the governmental and business-type activities.

	Table A-2					
	Total Governmental Activities		Total Business-Type Activities		Grand Total	
	2019	2020	2019	2020	2019	2020
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 104,573	\$ 52,024	\$ 545,530	\$ 442,591	\$ 650,103	\$ 494,615
Operating Grants and Contributions	1,783,903	1,651,510	445,546	541,100	2,229,449	2,192,610
<i>General Revenues</i>						
Taxes	13,022,695	13,748,984	-	-	13,022,695	13,748,984
Revenue State Sources	7,518,899	7,429,463	-	-	7,518,899	7,429,463
Revenue Federal Sources	118,642	105,670	-	-	118,642	105,670
Other General Revenues	637,136	501,797	-	-	637,136	501,797
Unrestricted Investment Earnings	121,997	95,903	738	130	122,735	96,033
Total Revenues	\$ 23,307,845	\$ 23,585,351	\$ 991,814	\$ 983,821	\$ 24,299,659	\$ 24,569,172
Expenses						
Instruction	\$ 11,810,363	\$ 13,905,554	\$ -	\$ -	\$ 11,810,363	\$ 13,905,554
Support Services	7,137,005	7,132,467	-	-	7,137,005	7,132,467
Community Services	11,686	38,835	-	-	11,686	38,835
Non-programmed Charges	1,592,978	128,987	-	-	1,592,978	128,987
Co-Curricular Activities	840,965	875,424	-	-	840,965	875,424
Interest on Long-Term Debt	275,064	246,104	-	-	275,064	246,104
Food Service	-	-	913,052	877,320	913,052	877,320
Driver's Education	-	-	29,336	28,532	29,336	28,532
Total Expenses	21,668,061	22,327,371	942,388	905,852	22,610,449	23,233,223
Change in Net Position	1,639,784	1,257,980	49,426	77,969	1,689,210	1,335,949
Ending Net Position	\$ 38,822,234	\$ 40,080,214	\$ 181,338	\$ 259,307	\$ 39,003,572	\$ 40,339,521

SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONCLUDED)

Governmental Activities

While the District experienced normal individual revenue fluctuations during the 2020 year compared to 2019, the total revenues of the District’s governmental activities increased approximately 1 percent due to increases in taxes received. The increase in expenditures of approximately 2 percent was due to salary and benefit increases to all staff.

Business-Type Activities

Revenues of the District’s business-type activities decreased approximately 1 percent, and expenses decreased approximately 3 percent. The decrease in revenues and expenses was due to the closure of the District in March due to COVID-19.

FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

The General Fund decreased mainly due to utilizing the general fund instead of capital outlay in an attempt to create flexibility when calculating the state imposed monthly cash balance limitation. The capital Outlay Fund increased due to an increase in property tax assessments. The Special Education Fund increased due to assessed value increases, enrollment and state impairment level increases.

BUDGETARY HIGHLIGHTS

The General Fund and Special Education revenue budgets increased due to state funding changes. The corresponding expenditure budgets increased due to staffing increases and increases in compensation. The Capital Outlay Fund revenue budget increased due to an increase in assessed valuation due to new construction. The capital outlay expenditure budget increased due to increased summer projects and paying off some existing debt.

CAPITAL ASSET ADMINISTRATION

By the end of 2020, the District had invested \$32,547,700 (net of accumulated depreciation) in a broad range of capital assets, including land, buildings, and various machinery and equipment. (See Table A-3.) This represents a slight increase from last year.

	Governmental Activities		Business-type Activities	
	2019	2020	2019	2020
Land	\$ 1,645,272	\$ 1,645,272	\$ -	\$ -
Buildings	29,804,323	29,427,066	-	-
Construction in Process	-	192,911	-	-
Machinery and Equipment	1,237,760	1,273,636	11,425	8,815
Total Capital Assets (Net)	\$ 32,687,355	\$ 32,538,885	\$ 11,425	\$ 8,815

SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2020**

LONG-TERM DEBT

Table A-4 Outstanding Debt and Obligations				
	2019	2020	Total Dollar Change	Total Percentage Change
General Obligation Bonds (QSCB) - 2010	\$ 1,500,000	\$ 1,500,000	\$ -	0%
General Obligation Certificates - 2012	795,000	-	(795,000)	-100%
General Obligation Certificates - 2014	505,000	-	(505,000)	-100%
General Obligation Refunding Certificates - 2017	5,430,000	4,860,000	(570,000)	-10%
Premium on Refunding Certificates	52,670	46,221	(6,449)	-12%
Early Retirement	100,112	-	(100,112)	-100%
Compensated Absences	192,271	124,667	(67,604)	-35%
Total Outstanding Debt and Obligations	\$ 8,575,053	\$ 6,530,888	\$ (2,044,165)	-24%

At year end, the District had \$6,530,888 in General Obligation Bonds and other long-term debt. This is a decrease of \$2,044,165 as shown on Table A-4 above. The decrease is due primarily to payments on the general obligation certificates and early retirement payments.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

Total Property valuation increased \$89,298,969 or 6.3 percent from the prior year. The growth factor, which in part determines capital outlay revenue availability increased by \$67,211,506. Due to the state funding formula, the Capital Outlay Fund is limited to the percentage of new growth plus CPI or 3% whichever is less in dollars per thousand.

The state aid formula ensures property taxes plus state aid will equal \$5,689.99 per pupil. The per student allocation for fiscal year 2020 increased to \$5,689.99. The increase in per pupil plus the enrollment increase of four students increased the District’s state aid revenue by \$107,960.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have questions about this report or need additional information, contact the Spearfish School District’s Business Office, 525 East Illinois, Spearfish, SD 57783.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**STATEMENT OF NET POSITION
JUNE 30, 2020**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<u>ASSETS</u>			
Cash and Investments	\$ 12,309,026	\$ 197,657	\$ 12,506,683
Taxes Receivable (Note 2)	6,389,959	-	6,389,959
Accounts Receivable	-	1,470	1,470
Due from State Government (Note 3)	417,249	53,136	470,385
Prepaid Expenses	121,377	-	121,377
Net Pension Asset (Note 4)	56,782	97	56,879
Restricted Cash (Note 6)	894,287	-	894,287
Capital Assets (Note 5):			
Land	1,645,272	-	1,645,272
Buildings, Net of Depreciation	29,427,066	-	29,427,066
Equipment, Net of Depreciation	1,273,636	8,815	1,282,451
Construction in Process	192,911	-	192,911
TOTAL ASSETS	52,727,565	261,175	52,988,740
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pension Related Deferred Outflows (Note 4)	1,736,878	2,972	1,739,850
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 54,464,443	\$ 264,147	\$ 54,728,590
<u>LIABILITIES</u>			
Accounts Payable	\$ 12,597	\$ -	\$ 12,597
Other Current Liabilities	1,612,847	-	1,612,847
Unearned Revenue	-	4,840	4,840
Long-Term Liabilities (Note 6):			
Due Within One Year	716,449	-	716,449
Due in More than One Year	5,814,439	-	5,814,439
TOTAL LIABILITIES	8,156,332	4,840	8,161,172
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Taxes Levied for Future Period (Note 2)	6,227,897	-	6,227,897
<u>NET POSITION</u>			
Net Investment in Capital Assets	26,132,664	8,815	26,141,479
Restricted for:			
Capital Outlay	5,466,328	-	5,466,328
Special Education	1,012,860	-	1,012,860
Debt Service	894,287	-	894,287
Pension - SDRS (Note 4)	1,793,660	3,069	1,796,729
Soccer	23,794	-	23,794
Unrestricted	4,756,621	247,423	5,004,044
TOTAL NET POSITION	40,080,214	259,307	40,339,521
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 54,464,443	\$ 264,147	\$ 54,728,590

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-Type Activities	
<i>Governmental Activities:</i>						
Instruction	\$ 13,905,554	\$ 1,935	\$ 1,651,510	\$ (12,252,109)	\$ -	\$ (12,252,109)
Support Services	7,132,467	-	-	(7,132,467)	-	(7,132,467)
Community Services	38,835	-	-	(38,835)	-	(38,835)
Non-programmed Charges	128,987	-	-	(128,987)	-	(128,987)
Co-Curricular Activities	875,424	50,089	-	(825,335)	-	(825,335)
Interest on Long- Term Debt *	246,104	-	-	(246,104)	-	(246,104)
	<u>22,327,371</u>	<u>52,024</u>	<u>1,651,510</u>	<u>(20,623,837)</u>	<u>-</u>	<u>(20,623,837)</u>
<i>Business-Type Activities:</i>						
Food Service	877,320	416,525	541,100	-	80,305	80,305
Driver's Education	28,532	26,066	-	-	(2,466)	(2,466)
	<u>905,852</u>	<u>442,591</u>	<u>541,100</u>	<u>-</u>	<u>77,839</u>	<u>77,839</u>
Total Primary Government	\$ 23,233,223	\$ 494,615	\$ 2,192,610	(20,623,837)	77,839	(20,545,998)
General Revenues						
Taxes:						
Property Taxes				13,570,727	-	13,570,727
Gross Receipts Taxes				178,257	-	178,257
Revenue from State Sources:						
State Aid				7,429,463	-	7,429,463
Revenue from Federal Sources						
				105,670	-	105,670
Unrestricted Investment Earnings						
				95,903	130	96,033
Other General Revenues				501,797	-	501,797
Total General Revenues				21,881,817	130	21,881,947
Change in Net Position				1,257,980	77,969	1,335,949
Net Position -- June 30, 2019				38,822,234	181,338	39,003,572
Net Position -- June 30, 2020				\$ 40,080,214	\$ 259,307	\$ 40,339,521

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

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2020**

	General Fund	Capital Outlay Fund	Special Education Fund
ASSETS			
Cash and Investments	\$ 5,697,526	\$ 5,418,458	\$ 1,193,042
Taxes Receivable -- Current (Note 2)	3,182,997	2,062,334	1,135,748
Taxes Receivable -- Delinquent (Note 2)	4,924	2,620	1,336
Due from Other Governments (Note 3)	392,846	-	24,403
Prepaid Expenses	104,589	-	16,788
Restricted Cash (Note 6)	-	-	-
Total Assets	\$ 9,382,882	\$ 7,483,412	\$ 2,371,317
LIABILITIES			
Accounts Payable	\$ 3,926	\$ -	\$ 8,671
Contracts Payable	1,179,851	-	203,746
Accrued Expenses	192,063	-	37,187
Total Liabilities	1,375,840	-	249,604
DEFERRED INFLOWS OF RESOURCES			
Taxes Levied for Future Period (Note 2)	3,101,960	2,015,800	1,110,137
Unavailable Revenue - Property Taxes (Note 2)	4,924	2,620	1,336
Total Deferred Inflows of Resources	3,106,884	2,018,420	1,111,473
FUND BALANCES			
Nonspendable - Prepaid Expenses	104,589	-	-
Restricted - Capital Outlay	-	5,464,992	-
Restricted - Special Education	-	-	1,010,240
Restricted - Debt Service	-	-	-
Restricted - Soccer	23,794	-	-
Assigned - Subsequent Year's Budget	55,389	-	-
Unassigned	4,716,386	-	-
Total Fund Balances	4,900,158	5,464,992	1,010,240
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 9,382,882	\$ 7,483,412	\$ 2,371,317

The accompanying notes are an integral part of this statement.

QSCB Redemption Fund	Total Governmental Funds
\$ -	\$ 12,309,026
-	6,381,079
-	8,880
-	417,249
-	121,377
894,287	894,287
\$ 894,287	\$ 20,131,898

\$ -	\$ 12,597
-	1,383,597
-	229,250
-	1,625,444

-	6,227,897
-	8,880
-	6,236,777

-	104,589
-	5,464,992
-	1,010,240
894,287	894,287
-	23,794
-	55,389
-	4,716,386
894,287	12,269,677

\$ 894,287	\$ 20,131,898
-------------------	----------------------

SPEARFISH SCHOOL DISTRICT NO. 40-2

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO GOVERNMENT-WIDE
STATEMENT OF NET POSITION
JUNE 30, 2020**

Total Fund Balances - Governmental Funds	\$ 12,269,677
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.	32,538,885
Long-term liabilities, including general obligation bonds, unamortized premium on bond, compensated absences, OPEB, and early retirement payable, are not due in the current period and, therefore, are not reported in the funds.	(6,530,888)
Assets such as delinquent taxes receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	8,880
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	56,782
Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.	1,736,878
Net Position - Governmental Funds	\$ 40,080,214

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2020**

	General Fund	Capital Outlay Fund	Special Education Fund
<u>REVENUES</u>			
<i>Revenue from Local Sources:</i>			
Ad Valorem Taxes	\$ 6,766,301	\$ 4,394,930	\$ 2,376,199
Prior Years' Ad Valorem Taxes	6,174	3,880	2,021
Gross Receipts Taxes	178,257	-	-
Penalties and Interest on Taxes	10,386	5,659	2,993
Interest Earned	62,572	33,218	108
Tuition and Fees	1,935	-	-
<i>Co-Curricular Activities:</i>			
Admissions	38,284	-	-
Pupil Organization Memberships	11,805	-	-
<i>Other Local Revenue:</i>			
Rentals	660	-	-
Charges for Services - Medicaid	5,376	-	14,213
Other	185,698	514	6,129
<i>Revenue from Intermediate Sources:</i>			
County Apportionment	289,207	-	-
<i>Revenue from State Sources -- Grants-in-Aid:</i>			
Unrestricted Grants-in-Aid	7,429,463	-	-
Restricted Grants-in-Aid	-	-	461,412
<i>Revenue from Federal Sources -- Grants-in-Aid:</i>			
Unrestricted Grants-in-Aid Received from Federal Government Through State	28,037	-	-
Restricted Grants-in-Aid Received from Federal Government Through State	675,431	-	514,667
Other Federal Revenue	-	77,633	-
Total Revenues	15,689,586	4,515,834	3,377,742
<u>EXPENDITURES</u>			
<i>Instruction Regular Programs:</i>			
Elementary	3,799,905	99,995	-
Middle/Junior High School	2,200,895	70,444	-
High School	2,697,835	91,925	-
Class Size Reduction	403,598	-	-
<i>Instruction Special Programs:</i>			
Programs for Special Education	-	12,455	2,474,047
Culturally Different	50,120	-	-
Educationally Deprived	528,206	-	-
<i>Support Services Pupils:</i>			
Guidance	500,607	-	-
Health Services	96,583	-	-
Psychological	-	-	69,264
Speech Pathology	-	-	348,150
Student Therapy Services	-	-	172,006

Pension Tax Fund	QSCB Redemption Fund	Total Governmental Funds
\$ -	\$ -	\$ 13,537,430
-	-	12,075
-	-	178,257
-	-	19,038
5	-	95,903
-	-	1,935
-	-	38,284
-	-	11,805
-	-	660
-	-	19,589
-	-	192,341
-	-	289,207
-	-	7,429,463
-	-	461,412
-	-	28,037
-	-	1,190,098
-	-	77,633
5	-	23,583,167
-	-	3,899,900
-	-	2,271,339
-	-	2,789,760
-	-	403,598
-	-	2,486,502
-	-	50,120
-	-	528,206
-	-	500,607
-	-	96,583
-	-	69,264
-	-	348,150
-	-	172,006

SPEARFISH SCHOOL DISTRICT NO. 40-2

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

	General Fund	Capital Outlay Fund	Special Education Fund
EXPENDITURES (Continued)			
<i>Support Services Instructional Staff:</i>			
Improvement of Instruction	910	-	-
Educational Media	515,957	67,305	-
<i>Support Services General Administration:</i>			
Board of Education	59,609	-	-
Executive Administration	262,796	-	-
Office of the Principal	1,169,353	-	-
<i>Support Services Business:</i>			
Fiscal Services	313,823	47,620	-
Facilities Acquisition and Construction	-	469,069	-
Operation and Maintenance of Plant	1,900,030	96,041	-
Pupil Transportation	365,475	-	-
Internal Service	3,527	-	-
Direction of Central Support Services	26,996	-	-
<i>Support Services Special Education:</i>			
Administrative Costs	-	-	132,224
Transportation Costs	-	-	26,949
Community Service Other	34,766	-	-
Early Retirement	28,875	-	-
Debt Service (Note 6)	-	2,039,353	-
<i>Co-Curricular Activities:</i>			
Male Activities	208,578	-	-
Female Activities	170,158	-	-
Combined Activities	348,564	48,525	-
Capital Outlay	92,509	409,555	-
Total Expenditures	15,779,675	3,452,287	3,222,640
Excess of Revenues Over (Under) Expenditures	(90,089)	1,063,547	155,102
Other Financing Sources (Uses)			
Transfers In (Note 10)	5	-	-
Transfers Out (Note 10)	-	(183,805)	-
Total Other Financing Sources (Uses)	5	(183,805)	-
Net Change in Fund Balances	(90,084)	879,742	155,102
Fund Balance -- June 30, 2019	4,990,242	4,585,250	855,138
Fund Balance -- June 30, 2020	\$ 4,900,158	\$ 5,464,992	\$ 1,010,240

The accompanying notes are an integral part of this statement.

Pension Tax Fund	QSCB Redemption Fund	Total Governmental Funds
-	-	910
-	-	583,262
-	-	59,609
-	-	262,796
-	-	1,169,353
-	-	361,443
-	-	469,069
-	-	1,996,071
-	-	365,475
-	-	3,527
-	-	26,996
-	-	132,224
-	-	26,949
-	-	34,766
100,112	-	128,987
-	83,200	2,122,553
-	-	208,578
-	-	170,158
-	-	397,089
-	-	502,064
100,112	83,200	22,637,914
(100,107)	(83,200)	945,253
-	183,805	183,810
(5)	-	(183,810)
(5)	183,805	-
(100,112)	100,605	945,253
100,112	793,682	11,324,424
\$ -	\$ 894,287	\$ 12,269,677

SPEARFISH SCHOOL DISTRICT NO. 40-2

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

Net Change in Fund Balances - Total Governmental Funds \$ 945,253

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. (148,470)

In both the government-wide and fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the funds' statements differs from the accounting in the government-wide statements in that the fund financial statements require the amounts to be available. This amount reflects the application of both the application period and availability criteria. 2,184

Governmental funds recognize expenditures for amounts of compensated absences and early retirement benefits actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the Statement of Activities, expenses for these benefits are recognized when the employees earn leave credits or elect to retire early. 167,716

Repayment of debt principal and payment made to escrow agent, is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 1,870,000

Premium on bond issue is a revenue in the fund statements but is capitalized and recognized as interest expense in the Statement of Activities. 6,449

Changes in the pension related deferred outflows/inflows, pension asset and related pension expenses are not reported in the governmental fund statements. (1,585,152)

Change in Net Position of Governmental Activities \$ 1,257,980

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**PROPRIETARY FUNDS BALANCE SHEET
JUNE 30, 2020**

	Food Service Fund	Driver's Education Fund	Total Proprietary Funds
ASSETS			
Current Assets:			
Cash	\$ 190,737	\$ 6,920	\$ 197,657
Due from Other Governments (Note 3)	53,136	-	53,136
Accounts Receivable	-	1,470	1,470
Total Current Assets	243,873	8,390	252,263
Noncurrent Assets:			
Net Pension Asset (Note 4)	-	97	97
Capital Assets (Note 5):			
Machinery and Equipment	216,530	-	216,530
Less Accumulated Depreciation	(207,715)	-	(207,715)
Total Noncurrent Assets	8,815	97	8,912
TOTAL ASSETS	252,688	8,487	261,175
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows (Note 4)	-	2,972	2,972
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 252,688	\$ 11,459	\$ 264,147
LIABILITIES			
Current Liabilities:			
Unearned Revenue	\$ -	\$ 4,840	\$ 4,840
NET POSITION			
Net Investment in Capital Assets	8,815	-	8,815
Restricted Pension (Note 4)	-	3,069	3,069
Unrestricted Net Position	243,873	3,550	247,423
Total Net Position	252,688	6,619	259,307
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 252,688	\$ 11,459	\$ 264,147

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020**

	Food Service Fund	Driver's Education Fund	Total Proprietary Funds
Operating Revenue			
<i>Sales:</i>			
To Pupils	\$ 410,787	\$ -	\$ 410,787
To Adults	5,738	-	5,738
Non-credit Tuition from Students, Parents, or Other	-	26,066	26,066
Total Operating Revenue	416,525	26,066	442,591
Operating Expenses			
Salaries	-	19,820	19,820
Employee Benefits	564	5,924	6,488
Purchased Services	777,412	2,788	780,200
Supplies	8,450	-	8,450
Cost of Sales - Purchased Food	2,086	-	2,086
Cost of Sales - Donated Food	86,198	-	86,198
Depreciation	2,610	-	2,610
Total Operating Expenses	877,320	28,532	905,852
Operating Loss	(460,795)	(2,466)	(463,261)
Nonoperating Revenue			
<i>Local Sources:</i>			
Interest Earnings	130	-	130
Cash Reimbursements	3,447	-	3,447
<i>Federal Sources:</i>			
Cash Reimbursements	451,455	-	451,455
Donated Food	86,198	-	86,198
Total Nonoperating Revenue	541,230	-	541,230
Change in Net Position	80,435	(2,466)	77,969
Net Position -- June 30, 2019	172,253	9,085	181,338
Net Position -- June 30, 2020	\$ 252,688	\$ 6,619	\$ 259,307

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**PROPRIETARY FUNDS STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020**

	Food Service Fund	Driver's Education Fund	Total Proprietary Funds
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 416,525	\$ 22,010	\$ 438,535
Payments to Suppliers	(787,948)	(2,788)	(790,736)
Payments to Employees	(564)	(22,525)	(23,089)
Net Cash Flows Used in Operating Activities	(371,987)	(3,303)	(375,290)
Cash Flows Provided by Noncapital Financing Activities:			
Operating Subsidies	401,766	-	401,766
Cash Flows Provided by Investing Activities:			
Cash Received for Interest	130	-	130
Net Increase (Decrease) in Cash During the Fiscal Year	29,909	(3,303)	26,606
Cash -- June 30, 2019	160,828	10,223	171,051
Cash -- June 30, 2020	\$ 190,737	\$ 6,920	\$ 197,657
Reconciliation of Operating Loss to Net Cash Flows Used in Operating Activities			
Operating Loss	\$ (460,795)	\$ (2,466)	\$ (463,261)
<i>Adjustments to Reconcile Operating Loss to Net Cash Provided by (Used in) Operating Activities:</i>			
Cost of Sales - Donated Food	86,198	-	86,198
Depreciation Expense	2,610	-	2,610
<i>Changes in Assets and Liabilities:</i>			
Accounts Receivable	-	(1,470)	(1,470)
Net Pension Asset	-	(74)	(74)
Pension Related Deferred Outflows	-	3,293	3,293
Unearned Revenue	-	(2,586)	(2,586)
Net Cash Flows Used in Operating Activities	\$ (371,987)	\$ (3,303)	\$ (375,290)
Noncash Investing, Capital and Financing Activities:			
Value of Commodities Received	\$ 86,198	\$ -	\$ 86,198

SPEARFISH SCHOOL DISTRICT NO. 40-2

**STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2020**

	Private-Purpose Trust Fund	Agency Funds
<u>ASSETS</u>		
Cash	\$ 72,794	\$ 497,708
<u>LIABILITIES</u>		
Amounts Held for Others	-	\$ 497,708
<u>NET POSITION</u>		
Restricted for Scholarships	\$ 72,794	

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Private-Purpose Trust Fund</u>
ADDITIONS	
Interest Earnings	\$ 1,206
DEDUCTIONS	
Scholarships Awarded	4,000
Change in Net Position	(2,794)
Net Position - June 30, 2019	75,588
Net Position - June 30, 2020	\$ 72,794

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

(1) Summary of Significant Accounting Policies

Reporting Entity

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

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

Basis of Presentation

Government-wide Statements:

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

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

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

Fund Financial Statements:

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Fund Financial Statements (Continued):

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

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

The funds of the financial reporting entity are described below:

Governmental Funds:

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

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

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

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

Pension Tax 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 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. The Pension Tax Fund was closed during the year ended June 30, 2020.

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

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Concluded)

Fund Financial Statements (Concluded):

Proprietary Funds:

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

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

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

Fiduciary Funds:

Fiduciary Funds are never considered to be major funds.

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

Agency Funds - Agency Funds are used to account for resources held by the 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 District maintains a variety of Agency Funds. Agency Funds are established to account for the monies earned by student organizations for various expenditures. Another Agency Fund accounts for the monies contributed by employees for health and dependent care expenses.

Measurement Focus and Basis of Accounting

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

Government-wide Financial Statements:

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

Fund Financial Statements:

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

(1) Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned, and expenses and related liabilities are recorded when an obligation is incurred.

Fund Financial Statements:

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

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

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

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

Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

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

1. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses," including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

(1) Summary of Significant Accounting Policies (Continued)

Capital Assets

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

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

Government-wide Financial Statements:

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

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

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

Buildings	50-100 years
Machinery and Equipment	7-30 years

Fund Financial Statements:

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

Long-Term Liabilities

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist of compensated absences, general obligation bonds, and general obligation certificates (see Note 6).

Funding for compensated absences, other post-employment benefits, and early retirement are expended in the general fund, special education fund and the pension tax fund.

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

(1) Summary of Significant Accounting Policies (Continued)

Deferred Inflows and Outflows of Resources

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

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

Pension

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

Program Revenues

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

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

Proprietary Funds Revenue and Expense Classifications

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

(1) Summary of Significant Accounting Policies (Continued)

Deposits and Investments

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

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

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

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

As of June 30, 2020, the District’s cash and investments consisted only of checking, savings and SDFIT money market. The bank balances at June 30, 2020 are as follows, excluding SDFIT, described below:

	<u>Bank Balance</u>
Insured - FDIC	\$ 1,082,715
Uninsured, collateralized in accordance with SDCL 4-6A-3	11,856,514
Total Deposits	<u>\$ 12,939,229</u>

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing purposes. It is regulated by a nine member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis. The balance of SDFIT at June 30, 2020 was **\$894,287**. SDFIT is measured as a Level 2 recurring fair value measurement according to the fair value hierarchy.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

(1) Summary of Significant Accounting Policies (Continued)

Deposits and Investments (Continued)

Assignment of Investment Income:

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

Interest Rate Risk:

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

Credit Risk:

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

Custodial Credit Risk:

The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2020, none of the District's deposits were exposed to custodial credit risk.

Concentration Risk:

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

Cash and Cash Equivalents

The District pools its cash resources for depositing and investing purposes. The District has access to its cash resources on demand. Accordingly, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

Equity Classifications

Government-wide Statements:

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

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

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

Fund Financial Statements:

Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net position held in trust for other purposes.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

(1) Summary of Significant Accounting Policies (Concluded)

Equity Classifications (Continued)

Governmental fund equity is classified as follows:

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

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

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. There were no commitments at June 30, 2020.

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

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

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

Emerging Accounting Standards

In January 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The District has not yet determined the specific impact of this statement on the financial statements. The statement is effective for the District's year ending June 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*, which requires the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the terms of the lease. The statement requires a lessee to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The District has not yet determined the specific impact of this statement on the financial statements. The statement is effective for the District's year ending June 30, 2022.

Subsequent Events

Subsequent events were evaluated through the date of the Independent Auditor's Report, which is the date in which the financial statements were available to be issued.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

(2) Property Taxes

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

District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Current year property taxes receivable, which are not available as a resource that can be used to finance the current year's appropriations and therefore are not susceptible to accrual, have been deferred and are not reported as revenue in the fund or government-wide financial statements.

(3) Due from Other Governments

Amounts due from other governments include grant reimbursements and gross receipts due from the State of South Dakota in the amount of **\$386,255** and gross receipts due from Lawrence County totaling **\$84,130**.

(4) Pension Plan

All employees working more than 20 hours per week during the school year participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer, defined benefit pension plan administered by SDRS, established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors' 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 by writing to SDRS, P.O. Box 1098, Pierre, South Dakota 57501-1098 or by calling (605) 773-3731.

Benefits Provided

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

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

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

(4) Pension Plan (Continued)

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

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

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to contribute an amount equal to the employee’s contribution. The District’s share of contributions to the System for the fiscal years ended June 30, 2020, 2019, and 2018 were **\$711,026**, \$696,151, and \$673,630 respectively, equal to the required contributions each year.

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

At June 30, 2019, SDRS is 100.09 percent funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension liability of South Dakota Retirement System, for the District as of June 30, 2020 are as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 66,831,409	\$ 114,360	\$ 66,945,769
Less: Proportionate Share of Total Pension Liability	66,774,627	114,263	66,888,890
Proportionate Share of Net Pension Asset	\$ 56,782	\$ 97	\$ 56,879

At June 30 2020, the District reported an asset of **\$56,879** for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2019 and the total pension asset used to calculate the net pension asset was based on a projection of the District’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2019, the District’s proportion was approximately 0.5367341 percent, which is an increase of 0.0057156 from its proportion measured at June 30, 2018.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

(4) Pension Plan (Continued)

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

For the year ended June 30, 2020, the District recognized pension expense of **\$2,287,967**. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 197,370	\$ -
Changes in Assumption	1,159,124	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	(327,670)	-
District Contributions Subsequent to the Measurement Date	711,026	-
Total	\$ 1,739,850	\$ -

Deferred outflow of resources includes **\$711,026** resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net position liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue), as follows:

2021	\$ 1,243,578
2022	(192,728)
2023	(131,132)
2024	109,106
	<u>\$ 1,028,824</u>

Actuarial Assumptions

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

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50 percent at entry to 3.00 percent after 25 years of service
Discount Rate	6.50 percent, net of plan investment expense
Future COLAs	1.88 percent

Mortality rates were based on 97 percent 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.

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

(4) Pension Plan (Concluded)

Actuarial Assumptions (Continued)

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of 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, 2018 (see the discussion of the pension plan’s investment policy) are summarized in the following table using geometric means:

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

Discount Rate

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

Sensitivity of Asset to Changes in the Discount Rate

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

District’s Proportionate Share of the Net Pension (Asset)/Liability	Current Discount		
	1% Decrease	Rate	1% Increase
	\$ 9,440,820	\$ (56,879)	\$ (7,795,788)

Pension Plan Fiduciary Net Position

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

(5) Changes in Capital Assets

Changes in capital assets used in governmental activities were as follows during the year ended June 30, 2020:

	Balance June 30, 2019	Additions	Transfers/ Retirements	Balance June 30, 2020
Governmental Activities				
<i>Capital Assets, not Depreciated</i>				
Land	\$ 1,645,272	\$ -	\$ -	\$ 1,645,272
Construction in Process	-	192,911	-	192,911
<i>Capital Assets, Depreciated</i>				
Buildings	37,679,918	72,428	-	37,752,346
Outdoor Equipment	208,243	-	-	208,243
Equipment -- Local Funds	3,067,984	236,725	-	3,304,709
	42,601,417	502,064	-	43,103,481
<i>Less Accumulated Depreciation</i>				
Buildings	7,875,595	449,685	-	8,325,280
Outdoor Equipment	83,837	7,143	-	90,980
Equipment -- Local Funds	1,954,630	193,706	-	2,148,336
	9,914,062	650,534	-	10,564,596
Governmental Activities Capital Assets, Net	\$ 32,687,355	\$ (148,470)	\$ -	\$ 32,538,885

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

Instruction	\$ 480,578
Support Services	115,702
Co-Curricular Activities	54,254
Total Depreciation Expense	\$ 650,534

Changes in capital assets used in business-type activities were as follows during the year ended June 30, 2020:

	Balance June 30, 2019	Additions	Transfers/ Retirements	Balance June 30, 2020
Business -Type Activities				
Machinery and Equipment	\$ 216,530	\$ -	\$ -	\$ 216,530
Less Accumulated Depreciation	205,105	2,610	-	207,715
Business -Type Activity Capital Assets, Net	\$ 11,425	\$ (2,610)	\$ -	\$ 8,815

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

(6) Long-Term Debt

The compensated absences and other post-employment benefits will be paid from the General and Special Education Funds, and the early retirement payable will be paid from the General Fund.

	General Obligation	Premium on Refunding Certificates	Early Retirement Payable	Compensated Absences Payable	Total
Governmental Activities					
June 30, 2019 Balance	\$ 8,230,000	\$ 52,670	\$ 100,112	\$ 192,271	\$ 8,575,053
Repayments	(1,870,000)	(6,449)	-	-	(1,876,449)
Compensated Absences Earned	-	-	-	103,331	103,331
Compensated Absences Used	-	-	-	(170,935)	(170,935)
Payments to Retirees	-	-	(100,112)	-	(100,112)
June 30, 2020 Balance	\$ 6,360,000	\$ 46,221	\$ -	\$ 124,667	\$ 6,530,888
Due Within One Year	\$ 590,000	\$ 6,449	\$ -	\$ 120,000	\$ 716,449

Long-term liabilities, other than compensated absences and early retirement payable, are comprised of the following:

2010 Limited Tax General Obligation Taxable Certificates (Qualified School Construction Bonds - Direct Pay); mature December 2026; semi-annual, interest-only payments with a balloon payment in December 2026; bearing interest at 5.50 percent; paid from the QSCB Redemption Fund. The certificates require sinking fund deposits to generate a total balance of the principal due on maturity (a). The District receives a credit from the Federal Government for 100 percent of the interest paid on the certificates. (b)	\$ 1,500,000
2017 Limited Tax General Obligation Refunding Certificates; mature December 2027; semi-annual payments; bearing interest at a fixed rate of 2.90 percent; paid from the Capital Outlay Fund.	4,860,000
Unamortized deferred premium on 2017 Limited Tax General Obligation Refunding Certificates	46,221
Total 2017 Limited Tax General Obligation Refunding Certificates	4,906,221
	\$ 6,406,221

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

(6) Long-Term Debt (Continued)

(a) The Qualified School Construction Bonds sinking fund balance required at June 30, 2020 was \$909,091. The sinking fund balance of **\$894,287** is included in restricted cash in the QSCB Redemption Fund. The balance was short of the sinking fund requirement of \$909,091 due to a timing error, and was in compliance shortly after year end. The District was not considered in violation of their debt covenant as of June 30, 2020.

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

The annual requirements to amortize all debt outstanding as of June 30, 2020, excluding compensated absences, are as follows:

Year Ending <u>June 30,</u>	General Obligation		<u>Totals</u>
	<u>Principal</u>	<u>Interest</u>	
2021	\$ 596,449	\$ 219,235	\$ 815,684
2022	616,449	201,908	818,357
2023	631,449	184,145	815,594
2024	646,449	165,875	812,324
2025	671,449	147,170	818,619
2026-2027	3,243,976	337,310	3,581,286
	<u>\$ 6,406,221</u>	<u>\$ 1,255,643</u>	<u>\$ 7,661,864</u>

(7) Joint Venture

The District participates in the Black Hills Special Services Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special educational services to the member school districts. During the year ended June 30, 2020, the District paid **\$1,270,173** for services provided by the co-op.

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

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

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

(7) Joint Venture (Continued)

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

Separate financial statements for this joint venture are available from Black Hills Special Services Cooperative. At June 30, 2020, this joint venture had total fund equity of \$4,630,442 (unaudited) and long-term debt of \$160,138 (unaudited).

(8) Risk Management

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

Property/Liability Insurance:

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

The agreement with the ASBSD-PLF provides that the above coverage will be provided to a \$5,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$100,000 to the upper limit. The District carries a \$5,000 deductible for the property damage, commercial automobile coverage, non-monetary professional liability, and a monetary deductible totaling \$10,000 for the school leader's professional liability coverage.

The District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Workmen's Compensation:

The District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota (ASBSD) Worker's Compensation Fund Pool (the Fund), which provides workers' compensation insurance coverage for participating members of the pool. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for the coverage, and to develop a comprehensive loss control program. The District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy. The District's premiums are accrued based on the ultimate cost of the experience to date of the Fund members.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

(8) Risk Management (Continued)

The District is responsible for payment of a premium to the insurance pool along with other pool participants. The District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to \$1,000,000 per individual per incident. The District does not carry additional insurance to cover claims in excess of the upper limit.

Health Insurance:

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

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

Unemployment Benefits:

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

(9) Other Post-Employment Benefits (OPEB) Plan

Plan Description:

The District sponsored the Spearfish School District Other Post-Employment Benefits (OPEB) Plan (the Plan) through December 31, 2017. The Plan provides medical insurance benefits to eligible retirees and their spouses as permitted by SDCL 6-1-16. Benefit provisions were established and may be amended during the negotiated agreement process with the District certified staff and School Board. The health plan does not issue separately stated stand-alone financial statements.

Effective January 1, 2018, the District is no longer self-insured and is purchasing health insurance coverage from the South Dakota School District Health Benefits Fund. Existing retirees on the old plan were allowed to remain on the new plan at their own cost until they reach age 65. No additional retirees will be allowed to purchase health insurance upon retirement. Accordingly, no liability for OPEB is recorded in the accompanying financial statements.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2020**

(10) Individual Fund Interfund Transactions

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

<u>Fund</u>	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund	\$ -	\$ 5
Capital Outlay Fund	183,805	-
Pension Tax Fund	5	-
QSCB Redemption Fund	-	183,805
Total Transfers	\$ 183,810	\$ 183,810

Transfers during the current year pertained to a transfer of capital outlay funds to QSCB to make the QSCB debt payments, and a transfer from the Pension Tax Fund to the General Fund for interest earned during the year.

(11) Current Economic Conditions

The District has been impacted by the world-wide coronavirus pandemic. The District's revenue consists primarily of funding provided by the State of South Dakota, the federal government, and local counties. The continued uncertainty regarding the local and national economy and labor markets as a result of the coronavirus pandemic could have a significant impact on the District's ability to maintain staffing and continue to provide services to students. The District is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the District's financial position is not known.

REQUIRED SUPPLEMENTARY INFORMATION

SPEARFISH SCHOOL DISTRICT NO. 40-2

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (UNAUDITED)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES				
<i>Revenue from Local Sources:</i>				
Taxes:				
Ad Valorem Taxes	\$ 6,493,275	\$ 6,493,275	\$ 6,766,301	\$ 273,026
Prior Years' Ad Valorem Taxes	7,100	7,100	6,174	(926)
Gross Receipts Taxes	197,500	197,500	178,257	(19,243)
Penalties and Interest on Taxes	9,000	9,000	10,386	1,386
Earnings on Interest-Bearing Accounts:				
Interest Earned	41,500	41,500	62,572	21,072
Tuition and Fees	-	-	1,935	1,935
Co-Curricular Activities:				
Admissions	36,000	36,000	38,284	2,284
Pupil Organization Memberships	13,000	13,000	11,805	(1,195)
Other Local Revenue:				
Rentals	2,500	2,500	660	(1,840)
Charges for Services - Medicaid	6,200	6,200	5,376	(824)
Contributions and Donations	3,000	3,000	-	(3,000)
Other	201,000	201,000	185,698	(15,302)
<i>Revenue from Intermediate Sources:</i>				
County Sources:				
County Apportionment	297,000	297,000	289,207	(7,793)
<i>Revenue from State Sources:</i>				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	7,382,304	7,382,304	7,429,463	47,159
<i>Revenue from Federal Sources:</i>				
Grants-in-Aid:				
Unrestricted Grants-in-Aid Received				
from Federal Government Through State	-	-	28,037	28,037
Restricted Grants-in-Aid Received from				
Federal Government Through State	701,789	701,789	675,431	(26,358)
Total Revenues	15,391,168	15,391,168	15,689,586	298,418
EXPENDITURES				
<i>Instruction:</i>				
Regular Programs:				
Elementary	3,670,403	3,670,403	3,799,905	(129,502)
Middle/Junior High School	2,192,680	2,192,680	2,200,895	(8,215)
High School	2,555,278	2,555,278	2,697,835	(142,557)
Class Size Reduction	501,294	501,294	403,598	97,696

SPEARFISH SCHOOL DISTRICT NO. 40-2

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (UNAUDITED)
GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
EXPENDITURES (Continued)				
Special Programs:				
Culturally Different	47,115	47,115	50,120	(3,005)
Educationally Deprived	515,109	515,109	528,206	(13,097)
Perkins	30,208	30,208	-	30,208
<i>Support Services:</i>				
Pupils:				
Guidance	479,351	479,351	500,607	(21,256)
Health Services	89,036	89,036	96,583	(7,547)
Instructional Staff:				
Improvement of Instruction	-	-	910	(910)
Educational Media	483,047	483,047	515,957	(32,910)
General Administration:				
Board of Education	65,244	65,244	152,118	(86,874)
Executive Administration	250,943	250,943	262,796	(11,853)
School Administration:				
Office of the Principal	1,138,205	1,138,205	1,169,353	(31,148)
Other	700	700	-	700
Business:				
Legal Fees	12,000	12,000	-	12,000
Audit Fees	30,000	30,000	-	30,000
Fiscal Services	304,103	304,103	313,823	(9,720)
Vehicle Expenses	28,000	28,000	-	28,000
Security Services	97,000	97,000	-	97,000
Operation and Maintenance of Plant	1,954,923	1,954,923	1,900,030	54,893
Pupil Transportation	273,116	273,116	365,475	(92,359)
Unemployment	500	500	-	500
Internal Service	-	-	3,527	(3,527)
Central:				
Direction of Central Support Services	23,970	23,970	26,996	(3,026)
<i>Community Services:</i>				
Other	22,457	22,457	34,766	(12,309)
<i>Non-programmed Charges:</i>				
Early Retirement	50,000	50,000	28,875	21,125
<i>Co-Curricular Activities:</i>				
Male Activities	203,224	203,224	208,578	(5,354)
Female Activities	174,595	174,595	170,158	4,437
Combined Activities	248,272	248,272	348,564	(100,292)
Activities Travel	65,000	65,000	-	65,000
State Events	20,000	20,000	-	20,000
Total Expenditures	15,525,773	15,525,773	15,779,675	(253,902)

SPEARFISH SCHOOL DISTRICT NO. 40-2

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (UNAUDITED)
GENERAL FUND (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
Excess of Revenues Over Expenditures	(134,605)	(134,605)	(90,089)	44,516
Other Financing Sources				
Transfers In	424,000	424,000	5	(423,995)
Net Change in Fund Balance	289,395	289,395	(90,084)	(379,479)
Fund Balance -- June 30, 2019	4,990,242	4,990,242	4,990,242	-
Fund Balance -- June 30, 2020	\$ 5,279,637	\$ 5,279,637	\$ 4,900,158	\$ (379,479)

The accompanying notes to required supplementary information are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (UNAUDITED)
CAPITAL OUTLAY FUND
FOR THE YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES				
<i>Revenue from Local Sources:</i>				
Taxes:				
Ad Valorem Taxes	\$ 4,188,112	\$ 4,188,112	\$ 4,394,930	\$ 206,818
Prior Years' Ad Valorem Taxes	4,500	4,500	3,880	(620)
Penalties and Interest on Taxes	4,650	4,650	5,659	1,009
Earnings on Interest-Bearing Accounts:				
Interest Earned	19,500	19,500	33,218	13,718
Other Local Revenue:				
Other	1,000	1,000	514	(486)
Other State Revenue				
Other Federal Revenue	38,000	38,000	77,633	39,633
Total Revenues	4,255,762	4,255,762	4,515,834	260,072
EXPENDITURES				
<i>Instruction:</i>				
Regular Programs:				
Elementary	138,000	138,000	99,995	38,005
Middle/Junior High School	71,000	71,000	70,444	556
High School	100,000	100,000	91,925	8,075
Special Programs:				
Programs for Special Education	16,000	16,000	12,455	3,545
<i>Support Services:</i>				
Instructional Staff:				
Improvement of Instruction	100,000	100,000	-	100,000
Educational Media	338,000	338,000	67,305	270,695
Business:				
Fiscal Services	105,000	105,000	107,320	(2,320)
Facilities Acquisition and Construction	800,000	800,000	818,924	(18,924)
Operation and Maintenance of Plant	100,000	100,000	96,041	3,959
Contract Bussing	64,000	64,000	-	64,000
<i>Debt Service:</i>				
Principal	1,895,000	1,895,000	1,870,000	25,000
Interest	170,631	170,631	167,553	3,078
Fees	2,400	2,400	1,800	600
<i>Co-Curricular Activities:</i>				
Combined Activities	82,250	82,250	48,525	33,725
Total Expenditures	3,982,281	3,982,281	3,452,287	529,994

SPEARFISH SCHOOL DISTRICT NO. 40-2

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (UNAUDITED)
CAPITAL OUTLAY FUND (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
Excess of Revenue Over Expenditures	273,481	273,481	1,063,547	790,066
Other Financing Uses				
Transfers Out	(92,159)	(92,159)	(183,805)	(91,646)
Net Change in Fund Balance	181,322	181,322	879,742	698,420
Fund Balance -- June 30, 2019	4,585,250	4,585,250	4,585,250	-
Fund Balance -- June 30, 2020	\$ 4,766,572	\$ 4,766,572	\$ 5,464,992	\$ 698,420

The accompanying notes to required supplementary information are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (UNAUDITED)
SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES				
<i>Revenue from Local Sources:</i>				
Taxes:				
Ad Valorem Taxes	\$ 2,264,226	\$ 2,264,226	\$ 2,376,199	\$ 111,973
Prior Years' Ad Valorem Taxes	2,900	2,900	2,021	(879)
Penalties and Interest on Taxes	2,650	2,650	2,993	343
Earnings on Interest-Bearing Accounts:				
Interest Earned	150	150	108	(42)
Other Local Revenue:				
Medicaid Direct	30,500	30,500	-	(30,500)
Charges for Services - Medicaid	1,000	1,000	14,213	13,213
Other	-	-	6,129	6,129
<i>Revenue from State Sources:</i>				
Grants-in-Aid:				
Restricted Grants-in-Aid	524,569	524,569	461,412	(63,157)
<i>Revenue from Federal Sources:</i>				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through State	461,966	461,966	514,667	52,701
Total Revenues	3,287,961	3,287,961	3,377,742	89,781
EXPENDITURES				
<i>Instruction:</i>				
Special Programs:				
Programs for Special Education	2,493,395	2,493,395	2,474,047	19,348
<i>Support Services:</i>				
Pupils:				
Psychological	121,248	121,248	69,264	51,984
Speech Pathology	352,542	352,542	348,150	4,392
Student Therapy Services	185,512	185,512	172,006	13,506
Special Education:				
Administrative Costs	161,589	161,589	132,224	29,365
Transportation Costs	21,000	21,000	26,949	(5,949)
Other Special Education Costs	13,100	13,100	-	13,100
Total Expenditures	3,348,386	3,348,386	3,222,640	125,746
Net Change in Fund Balance	(60,425)	(60,425)	155,102	215,527
Fund Balance -- June 30, 2019	855,138	855,138	855,138	-
Fund Balance -- June 30, 2020	\$ 794,713	\$ 794,713	\$ 1,010,240	\$ 215,527

The accompanying notes to required supplementary information are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (UNAUDITED)
PENSION TAX FUND
FOR THE YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES				
<i>Revenue from Local Sources:</i>				
Taxes:				
Prior Years' Ad Valorem Taxes	\$ 90	\$ 90	\$ -	\$ (90)
Penalties and Interest on Taxes	35	35	-	(35)
Earnings on Interest-Bearing Accounts:				
Interest Earned	5	5	5	-
Total Revenues	130	130	5	(125)
EXPENDITURES				
<i>Non-programmed Charges:</i>				
Early Retirement	100,112	100,112	100,112	-
Total Expenditures	100,112	100,112	100,112	-
Excess of Revenue Over Expenditures	(99,982)	(99,982)	(100,107)	(125)
Other Financing Uses				
Transfers Out	-	-	(5)	(5)
Total Other Financing Uses	-	-	(5)	(5)
Net Change in Fund Balance	(99,982)	(99,982)	(100,112)	(130)
Fund Balance -- June 30, 2019	100,112	100,112	100,112	-
Fund Balance -- June 30, 2020	\$ 130	\$ 130	\$ -	\$ (130)

The accompanying notes to required supplementary information are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**SCHEDULE OF THE DISTRICT CONTRIBUTIONS (UNAUDITED)
JUNE 30, 2020**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually Required Contribution	\$ 711,026	\$ 696,151	\$ 673,630	\$ 650,161
Contributions in Relation to the Contractually Required Contribution	711,026	696,151	673,630	650,161
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 11,697,175	\$ 11,415,395	\$ 11,038,663	\$ 10,527,816
Contributions as a Percentage of Covered- Employee Payroll	6.1%	6.1%	6.1%	6.2%
	<u>2016</u>	<u>2015</u>		
Contractually Required Contribution	\$ 576,318	\$ 569,027		
Contributions in Relation to the Contractually Required Contribution	576,318	569,027		
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>		
District's Covered-Employee Payroll	\$ 9,503,551	\$ 9,497,361		
Contributions as a Percentage of Covered- Employee Payroll	6.1%	6.0%		

SPEARFISH SCHOOL DISTRICT NO. 40-2

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION (ASSET)/LIABILITY (UNAUDITED)

JUNE 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's Proportion of the Net Pension (Asset)/Liability	0.5367341%	0.5310185%	0.5180577%	0.4998431%
District's Proportionate Share of Net Pension (Asset)/Liability	\$ (56,879)	\$ (12,385)	\$ (47,014)	\$ 1,688,422
District's Covered-Employee Payroll	\$ 11,415,395	\$ 11,038,663	\$ 10,527,816	\$ 9,503,551
District's Proportionate Share of the Net Pension (Asset)/Liability as a Percentage of its Covered-Employee Payroll	-0.50%	-0.11%	-0.45%	17.77%
Plan Fiduciary Net Position as a Percentage of the Total Pension (Asset)/Liability	100%	100%	100%	97%
	<u>2016</u>	<u>2015</u>		
District's Proportion of the Net Pension (Asset)/Liability	0.5194554%	0.5177378%		
District's Proportionate Share of Net Pension (Asset)/Liability	\$ (2,203,159)	\$ (3,730,089)		
District's Covered-Employee Payroll	\$ 9,497,361	\$ 9,053,816		
District's Proportionate Share of the Net Pension (Asset)/Liability as a Percentage of its Covered-Employee Payroll	-23.20%	-41.20%		
Plan Fiduciary Net Position as a Percentage of the Total Pension (Asset)/Liability	104%	107%		

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020**

(1) Basis of Presentation

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

(2) Budgetary Legal Requirements

South Dakota Codified Law prescribes the budgetary procedures followed by the District as follows:

1. Prior to the first regular board meeting in May of each year, the School Board prepares a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the School Board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the School Board, the operating budget is legally binding 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 five percent of the total 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.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets when monies are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board. The District does not employ encumbrance accounting as an extension of formal budgetary integration.
10. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, debt service funds, capital projects funds, food service fund, and driver's education fund. Generally accepted accounting principles prescribe that budgetary information be presented for the general fund and major special revenue funds of the District only.

(3) Schedule of the Proportionate Share of the Net Pension Liability (Asset) and Schedule of Pension Contributions

Changes in Benefit Terms: There were no significant changes.

Changes of Assumptions: Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5 percent and no greater than 3.5 percent.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
JUNE 30, 2020**

(3) Schedule of the Proportionate Share of the Net Pension Liability (Asset) and Schedule of Pension Contributions (Continued)

However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25 percent) is less than 100 percent, 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 percent. That condition existed as of June 30, 2018 and exists again this year as of June 30, 2019. Future COLAs are assumed to equal the current restricted maximum COLA which was 2.03 percent as of June 30, 2018 and is 1.88 percent as of June 30, 2019.

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

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

SINGLE AUDIT SECTION

SPEARFISH SCHOOL DISTRICT NO. 40-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020**

	CFDA Numbers	Grant Identifying Number	Amount
<i>U.S. Department of Agriculture:</i>			
Pass-Through the S.D. Department of Education:			
Child Nutrition Cluster:			
Non-Cash Assistance (Commodities):			
National School Lunch Program (Note 5)	10.555	N/A	\$ 86,198
Cash Assistance (Note 2):			
National School Lunch Program	10.555	N/A	328,612
CANS Menu Certification - 6 cents	10.555	N/A	5,257
CANS Performance Based Reimbursement	10.555	N/A	8,181
National School Breakfast Program	10.553	N/A	109,405
Total Child Nutrition Cluster			537,653
Pass-Through Lawrence County:			
School and Roads -- Grants to States (National Forest -- SDCL 41-16-14) (Note 1)	10.665	N/A	28,023
Total U.S. Department of Agriculture			565,676
<i>U.S. Department of the Interior:</i>			
Pass-Through the S.D. Department of Education:			
National Mineral Leasing (Note 1)	15.227	N/A	14
<i>U.S. Department of Education:</i>			
Pass-Through the S.D. Department of Education:			
Title I Programs -- Local Educational Agencies	84.010	N/A	510,957
Vocational Education Perkins Grant	84.048	N/A	20,936
Special Education Cluster:			
Special Education -- State Grants (P.L. 99-94-142)	84.027	N/A	495,747
Special Education -- Preschool Grants (P.L. 99-457)	84.173	N/A	18,920
Total Special Education Cluster			514,667
Improving Teacher Quality State Grants (Title II Part A)	84.367	N/A	118,867
Student Support and Academic Enrichment Program (Title IV)	84.424	N/A	24,671
Total U.S. Department of Education			1,190,098
Total			\$ 1,755,788

SPEARFISH SCHOOL DISTRICT NO. 40-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
JUNE 30, 2020**

Note 1: Federal reimbursements are not based upon specific expenditures; therefore, the amounts reported here represent cash received rather than federal expenditures.

Note 2: These amounts reflect cash received. Federal reimbursements are based on approved rates for services provided rather than reimbursement for specific expenditures.

Note 3: The schedule of expenditures of federal awards is presented on the modified accrual basis of accounting.

Note 4: The District did not elect to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 5: These amounts include non-monetary assistance which is reported at fair market value of the commodities received and disbursed.



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

810 Quincy Street

P.O. Box 3140, Rapid City, South Dakota 57709

Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **SPEARFISH SCHOOL DISTRICT NO. 40-2** (the District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 11, 2021.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as #2020-001 and #2020-002 that we consider to be material weaknesses.

Compliance and Other Matters

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

School Board
Spearfish School District No. 40-2

District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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



KETEL THORSTENSON, LLP
Certified Public Accountants

January 11, 2021



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

810 Quincy Street

P.O. Box 3140, Rapid City, South Dakota 57709

Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

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

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

Report on Compliance for Each Major Federal Program

We have audited the **SPEARFISH SCHOOL DISTRICT NO. 40-2's** (the District's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2020. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

School Board
Spearfish School District No. 40-2

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over compliance that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



KETEL THORSTENSON, LLP
Certified Public Accountants

January 11, 2021

SPEARFISH SCHOOL DISTRICT NO. 40-2

SCHEDULE OF FINDINGS

JUNE 30, 2020

A. Summary of Audit Results

1. The independent auditor's report expresses an unmodified opinion on the financial statements of Spearfish School District No. 40-2 (the District).
2. Material weaknesses were disclosed during the audit of the financial statements as reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.
3. No instances of noncompliance material to the District's financial statements were disclosed during the audit.
4. No material weaknesses were disclosed during the audit of the major federal award programs and none are reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance as Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs expresses unmodified opinions on all major programs.
6. The programs tested as major programs (or clusters) were:
 - a. Title I Program (CFDA #84.010)
 - b. School Breakfast Program and National School Lunch Program, CFDA #10.553 and CFDA #10.555.
7. The threshold for distinguishing type A and B programs was \$750,000.
8. The District was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Material Weaknesses

#2020-001 FINDING: Financial Statement Preparation

Federal Program Affected: None

Compliance Requirement: Not Applicable

Questioned Costs: None

Condition and Cause: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and the footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the District at the same time in connection with our audit. This is not unusual for us to do with districts of your size.

Criteria and Effect: This deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the District's management.

Repeat Finding from Prior Year: Yes, prior year finding #2019-001.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**SCHEDULE OF FINDINGS (CONTINUED)
JUNE 30, 2020**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Material Weaknesses (Continued)

#2020-001 FINDING: Financial Statement Preparation (Continued)

Recommendation: We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy, we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the District's statements. We are satisfied that the appropriate steps have been taken to provide the District with complete financial statements. It is the responsibility of management and those charged with governance to accept the degree of risk associated with this condition because of cost or other considerations.

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

#2020-002 FINDING: Audit Adjustments

Federal Program Affected: None

Compliance Requirement: Not Applicable

Questioned Costs: None

Condition and Cause: As in prior years, during the course of our engagement we proposed material audit adjustments. We also assisted in recording the current year effects of GASB 68 *Accounting and Reporting for Pensions*. Furthermore, other entries were proposed as part of the audit, but were not recorded due to the overall insignificance on the financial statements.

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

Repeat Finding from Prior Year: Yes, prior year finding #2019-002.

Recommendation: We recommend the following:

- Driver's Education fund balance should be rolled forward from the prior year financial statements.
- Record capital assets according to District policy and depreciation activity should be adjusted to the general ledger.
- Management should continue to review and approve the pension entries.
- Record amortization of premium on bond issue.

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

C. FINDINGS – COMPLIANCE AUDIT

None

MANAGEMENT RESPONSE

SPEARFISH SCHOOL DISTRICT 40-2

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

525 East Illinois
Spearfish, SD 57783-2521

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS JUNE 30, 2020

Spearfish School District No. 40-2 (the District) respectfully submits the following summary schedule of prior audit findings from the June 30, 2019 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2019 Schedule of Findings.

#2019-001: Financial Statement Preparation

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

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: As the District has accepted, the risk associated with the auditor's preparing of the financial statements, it will be repeated in 2020. See Corrective Action Plan.

#2019-002: Audit Adjustments

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

Initial Year Report: Originally issued years ago.

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

SPEARFISH SCHOOL DISTRICT 40-2

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

525 East Illinois
Spearfish, SD 57783-2521

CORRECTIVE ACTION PLAN JUNE 30, 2020

Spearfish School District No. 40-2 (the District) respectfully submits the following corrective action plan from the June 30, 2020 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

#2020-001: Financial Statement Preparation

Responsible Individuals: Craig Crosswait, Business Manager

Corrective Action Plan: The District has accepted the risk associated with requesting the auditors to prepare the financial statements and continues to plan for the auditors to prepare the reports.

Anticipated Completion Date: Ongoing

#2020-002: Audit Adjustments

Responsible Individuals: Craig Crosswait, Business Manager

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

Anticipated Completion Date: Ongoing