HERREID SCHOOL DISTRICT NO. 10-1

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

HERREID SCHOOL DISTRICT NO. 10-1
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2014

Board Members:

Mark Bentz
Pete Brandner
David Kary
Troy Beck
Kim Rossow

Superintendent:

Jeff Kosters

Business Manager:

Colleen Rueb

HERREID SCHOOL DISTRICT NO. 10-1

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WITH OFFICE IN
MILLER, SOUTH DAKOTA

INDEPENDENT AUDITORS' 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
Herreid School District No. 10-1
Herreid, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Herreid School District No. 10-1, South Dakota (School Distrtict), as of June 30, 2014, and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 8, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control 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. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as items 2014-01 through 2014-03 to be material weaknesses.

Compliance and Other Matters

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

School District's Response to Findings

The School District's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings. The School 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 them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity'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.

Kohlman, Steinbach & Anderson, LLP

December 8, 2014

HERREID SCHOOL DISTRICT NO. 10-1
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2014

PRIOR AUDIT FINDINGS:

2013-01

A material weakness was reported for a lack of segregation of duties for revenues, taxes and other receivables, cash, trust and agency, inventories, payables, capital assets and equity. This condition is restated as current audit finding 2014-01.

2013-02

The School District does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with generally accepted accounting principles (GAAP). As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This comment has not been corrected and is restated as current audit finding 2014-02.

2013-03

The School District does not have an internal control structure to provide for the recording of all necessary material adjustments. This comment has not been corrected and is restated as current audit finding 2014-03.

CURRENT AUDIT FINDINGS:

Internal Control-Related Findings - Material Weaknesses:

2014-01

Criteria

Internal control can help a School achieve its performance targets and prevent loss of resources. It can help ensure reliable financial reporting and it can help ensure that the School complies with laws and regulations.

Condition Found

A material weakness was reported for a lack of segregation of duties for revenues, taxes and other receivables, cash, trust and agency, inventories, payables, capital assets, and equity, which could result in errors not being found in a timely manner.

Effect

This comment is the result of the size of the entity which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The School District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenues, receivables, cash, trust and agency, inventories, payables, capital assets, and equity. It is not known how long this comment has been carried forward.

Recommendation

The School is aware of this problem and should attempt to provide compensating controls wherever and whenever possible and practical.

Corrective Action Plan

The School District has determined that it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenues, receivables, cash, trust and agency, inventories, payables, capital assets, and equity and accepts the risks involved. The Board is aware of the problem and will attempt to provide compensating controls wherever and whenever possible and practical. The Superintendent, Jeff Kosters, is responsible for the corrective action plan for this finding.

2014-02

Criteria

An organization's internal control structure should provide for the preparation of financial statements in accordance with generally accepted accounting principles (GAAP).

Condition Found

The School does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with generally accepted accounting principles. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Effect

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

Recommendation

This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan

Both management and the School Board have been informed of this condition and are confident that the information is accurate and are willing to accept this risk. The Business Manager, Colleen Rueb, is responsible for the corrective action plan for this finding.

2014-03

Criteria

An organization's internal control structure should provide for the recording of all necessary material adjustments in order to ensure that accounting records are in accordance with generally accepted accounting principles.

Condition Found

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the School's existing internal controls, and therefore could have resulted in a material misstatement of the School's financial statements.

Effect

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

Recommendation

This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan

The School accepts the risks associated with this deficiency. The Board is aware of the problem and will attempt to provide compensating controls wherever and whenever possible and practical. The contact person for this finding is Colleen Rueb, Business Manager.

Closing Conference

The contents of this report were discussed with Colleen Rueb, Business Manager, Kim Rossow, Board Member, and Jeff Kosters, Superintendent, on July 17, 2014.

KOHLMAN, BIERSCHBACH & ANDERSON, LLP
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WITH OFFICE IN
MILLER, SOUTH DAKOTA

INDEPENDENT AUDITORS' REPORT

School Board
Herreid School District No. 10-1
Herreid, 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 Herreid School District No. 10-1, South Dakota (School District), as of June 30, 2014, and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The School District's 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion 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 of 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 auditors' 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 School District'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 School District'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 Herreid School District No. 10-1 as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules on pages 34 through 37 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The School District has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 8, 2014, on our consideration of the School District's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the School District's internal control over financial reporting and compliance.

Kahlen, Bienenholz & Anderson, LLP

December 8, 2014

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF NET POSITION
JUNE 30, 2014

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	$ 262,011	$ 2,865	$ 264,876
Investments	210,000	-	210,000
Taxes receivable	415,622	-	415,622
Due from Trust and Agency Fund	175	-	175
Inventories	19,560	2,607	22,167
Other assets	27,902	406	28,308
Restricted Assets:			
Cash and cash equivalents	13,594	-	13,594
Capital Assets:			
Land, improvements and construction in progress	5,464	-	5,464
Other capital assets, net of depreciation	743,641	1,900	745,541
TOTAL ASSETS	1,697,969	7,778	1,705,747
LIABILITIES:			
Accounts payable	5,080	-	5,080
Other current liabilities	87,247	2,842	90,089
Noncurrent Liabilities:			
Due within one year	4,660	-	4,660
TOTAL LIABILITIES	96,987	2,842	99,829
DEFERRED INFLOWS OF RESOURCES:			
Taxes levied for future period	414,113	-	414,113
TOTAL DEFERRED INFLOWS OF RESOURCES	414,113	-	414,113
NET POSITION:			
Net investment in capital assets	749,105	1,900	751,005
Restricted for:			
Capital outlay purposes	264,017	-	264,017
Special education purposes	15,784	-	15,784
Other purposes	13,594	-	13,594
Unrestricted	144,369	3,036	147,405
TOTAL NET POSITION	$ 1,186,869	$ 4,936	$ 1,191,805

The notes to the financial statements are an integral part of this statement.

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
					Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
Instruction	$ 788,861	$ -	$ 79,079	$ 1,350	$ (708,432)		$ (708,432)
Support services	574,783	3,150	-	2,624	(569,009)		(569,009)
Cocurricular activities	58,591	8,803	-	-	(49,788)		(49,788)
Total Governmental Activities	1,422,235	11,953	79,079	3,974	(1,327,229)		(1,327,229)
Business-Type Activities:							
Food service	71,487	38,772	17,510	-		$ (15,205)	(15,205)
Total Primary Government	$1,493,722	$ 50,725	$ 96,589	$ 3,974	(1,327,229)	(15,205)	(1,342,434)
	General Revenues:						
	Taxes:						
	Property taxes				830,622	-	830,622
	Utility taxes				70,047	-	70,047
	Revenue from State Sources:						
	State aid				303,397	-	303,397
	Other				27,172	-	27,172
	Unrestricted Investment Earnings				1,546	2	1,548
	Other General Revenues				8,978	78	9,056
	Transfers				(14,298)	14,298	-
	Total General Revenues and Transfers				1,227,464	14,378	1,241,842
	Change in Net Position				(99,765)	(827)	(100,592)
	Net Position - Beginning				1,286,634	5,763	1,292,397
	Net Position - Ending				$ 1,186,869	$ 4,936	$ 1,191,805

The notes to the financial statements are an integral part of this statement.

HERREID SCHOOL DISTRICT NO. 10-1
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General Fund	Capital Outlay Fund	Special Education Fund	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	$ 179,023	$ 64,275	$ 18,713	$ 262,011
Investments	10,000	200,000	-	210,000
Taxes receivable - current	285,828	41,802	86,483	414,113
Taxes receivable - delinquent	1,280	60	169	1,509
Due from Trust and Agency Fund	175	-	-	175
Due from federal government	13,043	-	-	13,043
Due from county government	14,859	-	-	14,859
Inventory of supplies	19,560	-	-	19,560
Restricted cash and cash equivalents	13,594	-	-	13,594
TOTAL ASSETS	$ 537,362	$ 306,137	$ 105,365	$ 948,864
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	$ 4,800	$ 280	$ -	$ 5,080
Contracts payable	74,655	-	-	74,655
Due to state government	-	-	2,992	2,992
Payroll deductions and withholdings and employer matching payable	9,600	-	-	9,600
TOTAL LIABILITIES	89,055	280	2,992	92,327
DEFERRED INFLOWS OF RESOURCES:				
Unavailable Revenue - Property Taxes	1,280	60	169	1,509
Taxes levied for future period	285,828	41,862	86,652	414,342
TOTAL DEFERRED INFLOWS OF RESOURCES	287,109	41,922	86,821	415,852
FUND BALANCES:				
Nonspendable:				
Inventory of supply	19,560	-	-	19,560
Restricted for:				
Capital outlay purposes	-	263,995	-	263,995
Special education purposes	-	-	15,721	15,721
Athletic purposes	8,518	-	-	8,518
Music education purposes	3,038	-	-	3,038
Veteran's memorial	2,038	-	-	2,038
Assigned to:				
Teacher's supplies	3,783	-	-	3,783
Next year's budget	124,261	-	-	124,261
TOTAL FUND BALANCES	161,198	263,995	15,721	440,914
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 537,362	$ 306,197	$ 105,534	$ 949,093

The notes to the financial statements are an integral part of this statement.

HERREID SCHOOL DISTRICT NO. 10-1
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Total Fund Balances - Governmental Funds		$ 440,914
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		749,105
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Accrued leave	$ 4,660	(4,660)
Assets, such as taxes receivable that are not available to pay for current period expenditures, are deferred in the funds.		
Taxes receivable	$ 1,510	1,510
Net Position - Governmental Activities		$ 1,186,869

The notes to the financial statements are an integral part of this statement.

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	General Fund	Capital Outlay Fund	Special Education Fund	Total Governmental Funds
REVENUES:				
Revenue from Local Sources:				
Taxes:				
Ad valorem taxes	$ 588,115	$ 72,591	$ 167,105	$ 827,811
Prior year's ad valorem taxes	233	18	50	301
Utility taxes	70,047	-	-	70,047
Penalties and interest on taxes	1,247	102	255	1,604
Earnings on investments and deposits	361	1,185	-	1,546
Cocurricular activities:				
Admissions	6,474	-	-	6,474
Other pupil activity income	2,329	-	-	2,329
Other revenue from local sources:				
Contributions and donations	838	1,350	-	2,188
Charges for services	2,631	-	519	3,150
Other	5,131	2	-	5,133
Revenue from Intermediate Sources:				
County sources:				
County apportionment	4,779	-	-	4,779
Revenue from State Sources:				
Grants-in-aid:				
Unrestricted grants-in-aid	330,569	-	-	330,569
Restricted grants-in-aid	2,875	-	-	2,875
Revenue from Federal Sources:				
Grants-in-aid:				
Restricted grants-in-aid received from federal government through the state	47,389	-	24,917	72,306
Other federal revenue	5,684	-	-	5,684
TOTAL REVENUE	1,068,702	75,248	192,846	1,336,796
EXPENDITURES:				
Instruction:				
Regular programs:				
Elementary	257,569	15,822	-	273,391
Middle/Junior high	160,257	2,254	-	162,511
High school	199,854	4,331	-	204,185
Special programs:				
Programs for special education	-	-	88,858	88,858
Educationally deprived	24,423	-	-	24,423
Support Services:				
Pupils:				
Guidance	3,031	-	-	3,031
Psychological	-	-	4,829	4,829
Speech pathology	-	-	34,525	34,525
Student therapy services	-	-	37,260	37,260

	General Fund	Capital Outlay Fund	Special Education Fund	Total Governmental Funds
Instructional staff:				
Improvement of instruction	25,077	-	-	25,077
Educational media	13,134	-	-	13,134
General administration:				
Board of education	18,418	-	-	18,418
Executive administration	85,649	-	-	85,649
School administration:				
Office of the principal	8,273	-	-	8,273
Other	8,200	-	-	8,200
Business:				
Fiscal services	42,671	-	-	42,671
Facilities acquisition and construction	-	37,295	-	37,295
Operation and maintenance of plant	140,053	-	-	140,053
Pupil transportation	66,416	-	-	66,416
Special education:				
Administrative costs	-	-	22,407	22,407
Cocurricular Activities:				
Male activities	12,639	-	-	12,639
Female activities	13,683	-	-	13,683
Combined activities	29,792	1,026	-	30,818
Capital Outlay	2,620	1,350	-	3,970
TOTAL EXPENDITURES	1,111,759	62,078	187,879	1,361,716
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(43,057)	13,170	4,967	(24,920)
OTHER FINANCING SOURCES (USES):				
Transfers out	(14,298)	-	-	(14,298)
Sale of surplus property	150	-	-	150
TOTAL OTHER FINANCING SOURCES (USES)	(14,148)	-	-	(14,148)
NET CHANGE IN FUND BALANCES	(57,205)	13,170	4,967	(39,068)
FUND BALANCE - BEGINNING	218,403	250,825	10,754	479,982
FUND BALANCE - ENDING	$ 161,198	$ 263,995	$ 15,721	$ 440,914

The notes to the financial statements are an integral part of this statement.

HERREID SCHOOL DISTRICT NO. 10-1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

Net Change in Fund Balances - Total Governmental Funds	$ (39,068)
Amounts reported for governmental activities in the statement of activities are different because:	
This amount represents capital asset purchases which are reported as expenditures on the fund financial statements but increase assets on the government-wide statements.	3,970
This amount represents the current year depreciation expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources.	(64,489)
In the statement of activities, losses of $934 on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds of $150 from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized.	(1,084)
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".	906
Change in Net Position of Governmental Activities	$ (99,765)

The notes to the financial statements are an integral part of this statement.

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Enterprise Funds Food Service Fund
ASSETS:	
Current Assets:	
Cash and cash equivalents	$ 2,865
Accounts receivable, net	406
Inventory of supplies	142
Inventory of stores purchased for resale	1,424
Inventory of donated food	1,041
Total Current Assets	5,878
Capital Assets:	
Machinery and equipment	14,565
Less: accumulated depreciation	(12,665)
Total Noncurrent Assets	1,900
TOTAL ASSETS	7,778
LIABILITIES:	
Contracts payable	2,501
Payroll deductions and withholdings and employer matching payable	341
TOTAL LIABILITIES	2,842
NET POSITION:	
Net investment in capital assets	1,900
Unrestricted net position	3,036
TOTAL NET POSITION	$ 4,936

The notes to the financial statements are an integral part of this statement.

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Enterprise Funds Food Service Fund
OPERATING REVENUE:	
Food sales:	
Student	$ 29,654
Adult	4,182
Ala carte	4,936
TOTAL OPERATING REVENUE	38,772
OPERATING EXPENSES:	
Salaries	34,948
Employee benefits	7,497
Purchased services	1,013
Supplies	1,017
Cost of sales - purchased	22,691
Cost of sales - donated	4,081
Depreciation	240
TOTAL OPERATING EXPENSES	71,487
OPERATING LOSS	(32,715)
NONOPERATING REVENUE:	
Investment earnings	2
State grants	247
Federal grants	13,182
Donated food	4,081
Gain on sale of capital assets	78
TOTAL NONOPERATING REVENUE	17,590
LOSS BEFORE TRANSFERS	(15,125)
TRANSFERS IN	14,298
CHANGE IN NET POSITION	(827)
NET POSITION - BEGINNING	5,763
NET POSITION - ENDING	$ 4,936

The notes to the financial statements are an integral part of this statement.

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Enterprise Funds Food Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash receipts from customers	$ 38,772
Cash payments to employees for services	(41,740)
Cash payments to suppliers of goods and services	(24,721)
Net cash used by operating activities	(27,689)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfers in	14,298
Operating grants	13,429
Net cash provided by noncapital financing activities	27,727
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from sale of capital assets	78
Net cash provided by capital and related financing activities	78
CASH FLOWS FROM INVESTING ACTIVITIES:	
Cash received for interest	2
Net cash provided by investing activities	2
NET INCREASE IN CASH AND CASH EQUIVALENTS	118
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,747
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 2,865

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

OPERATING LOSS	$ (32,715)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Depreciation expense	240
Value of donated commodities used	4,081
Change in assets and liabilities:	
Accrued leave payable	705
NET CASH USED BY OPERATING ACTIVITIES	$ (27,689)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Value of commodities received	$ 4,081

The notes to the financial statements are an integral part of this statement.

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	Private-Purpose Trust Funds	Agency Funds
ASSETS:		
Investments	$ 21,709	$ 23,253
TOTAL ASSETS	$ 21,709	$ 23,253
LIABILITIES:		
Due to general fund	$ -	$ 175
Amounts held for others	-	23,078
TOTAL LIABILITIES	-	$ 23,253
NET POSITION:		
Held in trust for scholarships	$ 21,709	

The notes to the financial statements are an integral part of this statement.

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	Private-Purpose Trust Funds
ADDITIONS:	
Earnings on investments and deposits	$ 87
TOTAL ADDITIONS	87
DEDUCTIONS:	
Trust deductions for scholarships	100
TOTAL DEDUCTIONS	100
CHANGE IN NET POSITION	(13)
NET POSITION - BEGINNING	21,722
NET POSITION - ENDING	$ 21,709

The notes to the financial statements are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity:

The reporting entity of the Herreid School District No. 10-1 (School District), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

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

b. Basis of Presentation:

Government-Wide Financial Statements:

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

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

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

Fund Financial Statements:

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

NOTE 1 - (Continued)

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type, and

2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or

3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

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

Governmental Funds:

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

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

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

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

Proprietary Funds:

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

a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit - even if that government is not expected to make any payments - is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)

b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.

c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Food Service Fund - A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

NOTE 1 - (Continued)

Fiduciary Funds:

Fiduciary funds consist of the following sub-categories and are never considered to be major funds:

Private-Purpose Trust Funds - Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The School District maintains only the following private-purpose trust fund:

The Adney Scholarship Trust Fund is the only private-purpose trust fund.

Agency Funds - Agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The School District maintains agency funds to hold assets as an agent in a trustee capacity for various classes, clubs, and so on.

c. Measurement Focus and Basis of Accounting:

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

Measurement Focus:

Government-Wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

Government-Wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the

NOTE 1 - (Continued)

bills of the current period. The accrual period for the School District is 60 days. The revenues which are accrued at June 30, 2014, are reimbursements for federal program expenditures.

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 revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

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

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

d. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist entirely (primarily) of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Law (SDCL) 4-5-6.

e. Capital Assets:

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

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

Government-Wide Financial Statements

All 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. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

The total June 30, 2014 balance of capital assets for governmental activities are all valued at original costs. The total June 30, 2014 balance of capital assets for business-type activities are all valued at original costs.

NOTE 1 - (Continued)

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	$ -	-----N/A-----	-----N/A----
Improvements	$ 2,500	Straight-line	10-20 years
Buildings	$ 2,500	Straight-line	50 years
Machinery and Equipment	$ 2,500	Straight-line	4-20 years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

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

f. Long-Term Liabilities:

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

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

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 proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

g. Program Revenues:

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

NOTE 1 - (Continued)

3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications:

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

i. Cash and Cash Equivalents:

For the purpose of preparing the Statement of Cash Flows, the School District considers all highly liquid investments and deposits with a term to maturity of three months or less when purchased to be cash equivalents.

j. Equity Classifications:

Government-Wide Financial Statements:

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

1. Net investment in capital assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, 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 assets that do not meet the definition of "restricted" or "net investment in capital assets".

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and is distinguished between Nonspendable, Restricted, Committed, Assigned or Unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net position held in trust for other purposes.

k. Application of Net Position:

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

NOTE 1 - (Continued)

1. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the School District classifies governmental fund balances as follows:

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

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

Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the School Board, 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 Nonspendable Fund Balance is comprised of the following:

Amount reported in nonspendable form such as inventory.

The School 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 Government would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Government does not have a formal minimum fund balance policy.

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

Major Special Revenue Fund	Revenue Source
Capital Outlay Fund	Property Taxes
Special Education Fund	Property Taxes and Grants

NOTE 2 - DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

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

NOTE 2 - (Continued)

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

Investments - In general, SDCL 4-5-6 permits school district funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

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

As of June 30, 2014, all of the School District's investments were in certificates of deposit.

Concentration of Credit Risk - The School District places no limit on the amount that may be invested in any one issuer. All of the School District's investments are in certificates of deposit with the Campbell County Bank.

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

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit interest income from the General Fund and Special Education Fund pooled account to the General Fund. All other funds have their own accounts with interest being credited to that fund. Certificates of deposit interest income is credited to the fund making the investment.

NOTE 3 - RESTRICTED CASH AND INVESTMENTS

Assets restricted to use for Athletics, Music, and Veteran's Memorial through segregation of balances in separate accounts totals $13,594 for the year ended June 30, 2014.

NOTE 4 - RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year. No allowances for estimated uncollectibles have been determined to be necessary.

NOTE 5 - INVENTORY

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

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

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

NOTE 6 - PROPERTY TAXES

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, and 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 School District's taxes and remits them to the School District.

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

NOTE 7 - RESTRICTED NET POSITION

Restricted net position for the fiscal year ended June 30, 2014, were as follows:

Purpose	Restricted By	Amount
Major Funds:		
Capital Outlay Purposes	Law	$ 264,017
Special Education Purposes	Law	15,721
Other Purposes:		
Athletics	Outside Sources	8,518
Music	Outside Sources	3,038
Veteran's Memorial	Outside Sources	2,038
Total Restricted Net Position		$ 293,332

NOTE 8 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2014, is as follows:

Primary Government

	Balance 7/1/2013	Increases	Decreases	Balance 6/30/2014
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 5,464	$ -	$ -	$ 5,464
Capital assets, being depreciated:				
Improvements	109,574	-	-	109,574
Buildings	1,205,320	-	-	1,205,320
Machinery and equipment	506,496	3,970	2,567	507,899
Total, being depreciated	1,821,390	3,970	2,567	1,822,793
Less accumulated depreciation for:				
Improvments	82,899	657	-	83,556
Buildings	652,961	28,866	-	681,827
Machinery and equipment	280,286	34,966	1,483	313,769
Total accumulated depreciation	1,016,146	64,489	1,483	1,079,152
Total capital assets, being depreciated, net	805,244	(60,519)	1,084	743,641
Total governmental activity capital assets, net	$ 810,708	$ (60,519)	$ 1,084	$ 749,105

NOTE 8 - (Continued)

Depreciation expense was charged to functions as follows:

Govenmental Activities:

Instruction	$ 35,492
Support Services	27,546
Cocurricular Activities	1,451
Total depreciation expense-governmental activities	$ 64,489

	Balance 7/1/2013	Increases	Decreases	Balance 6/30/2014
Business-type activities:				
Capital assets, being depreciated:				
Machinery and equipment	$ 14,565	$ -	$ -	$ 14,565
Total, being depreciated	14,565	-	-	14,565
Less accumulated depreciation for:				
Machinery and equipment	12,425	240	-	12,665
Total accumulated depreciation	12,425	240	-	12,665
Total business-type activity capital assets, net	$ 2,140	$ (240)	$ -	$ 1,900

Depreciation expense was charged to functions as follows:

Business-Type Activities:

Food Service	$ 240

NOTE 9 - LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities for the year ended June 30, 2014, is as follows:

PRIMARY GOVERNMENT

Governmental Activities

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Compensated Absences	$ 4,660	$ 4,660	$ 4,660	$ 4,660	$ 4,660

Compensated absences for governmental activities typically have been liquidated from the General Fund.

Liabilities payable at June 30, 2014, are comprised of the following:

PRIMARY GOVERNMENT

Governmental Activities:

Compensated Absences:	
Payable from the General Fund	$ 4,660

NOTE 10 - OPERATING LEASES

The School District is leasing two Canon copiers from Marco, Inc. The Capital Outlay Fund is making the lease payments. The lease is for 60 months with monthly payments of $551 starting September 9, 2013. Payments made in 2014 total $6,761.

The following are the minimum payments required for existing operating leases:

Year	Capital Outlay Fund
2015	6,612
2016	6,612
2017	6,612
2018	6,612
2019	1,023
Total	$ 27,471

NOTE 11 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2014, were as follows:

	Transfers to:
	Business-Type Activities
Transfers from:	Food Service Fund
Major Funds:	
General Fund	$ 14,298

The purpose of the interfund transfer was to eliminate the negative equity in the Food Service Fund.

NOTE 12 - RETIREMENT 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 public employee retirement system 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 the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2014, 2013 and 2012 were $42,341, $37,558 and $36,699, respectively, equal to the required contributions each year.

NOTE 13 - JOINT VENTURES

The School District participates in the joint venture known as Oahe Special Education Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education services to the member school districts.

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

Bowdle School District No. 22-1	14.29%
Edmunds Central School District No. 22-5	14.29%
Eureka School District No. 44-1	14.29%
Herreid School District No. 10-1	14.29%
Hoven School District No. 53-2	14.28%
Selby Area School District No. 62-5	14.28%
Smee School District No. 15-3	14.28%

NOTE 13 - (Continued)

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

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

Separate financial statements for this joint venture are available from Oahe Special Education Cooperative.

At June 30, 2014, this joint venture had total assets of $349,342, total liabilities of $101,301 and net position of $248,041.

NOTE 14 - LITIGATION

At June 30, 2014, the School District was not involved in any litigation.

NOTE 15 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2014, the School District managed its risks as follows:

Employee Health Insurance:

The School District purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

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

Worker's Compensation:

The School District purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

The School District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended June 30, 2014, no claims were filed for unemployment benefits. At June 30, 2014, no claims had been filed or were outstanding. It is not anticipated that any claims for unemployment benefits will be filed in the next fiscal year.

NOTE 16 - SUBSEQUENT EVENTS

Management has evaluated whether any subsequent events have occurred through December 8, 2014, the date on which the financial statements were available to be issued. Management has determined there are none.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

HERREID SCHOOL DISTRICT NO. 10-1
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - BUDGETARY BASIS
YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Revenue from Local Sources:				
Taxes:				
Ad valorem taxes	$ 545,000	$ 545,000	$ 588,115	$ 43,115
Prior year's ad valorem taxes	2,500	2,500	233	(2,267)
Utility taxes	50,000	50,000	70,047	20,047
Penalties and interest on taxes	1,500	1,500	1,247	(253)
Earnings on investments and deposits	400	400	361	(39)
Cocurricular activities:				
Admissions	10,000	10,000	6,474	(3,526)
Other pupil activity income	2,000	2,000	2,329	329
Other revenue from local sources:				
Contributions and donations	-	-	838	838
Charges for services	3,000	3,000	2,631	(369)
Other	5,000	5,000	5,131	131
Revenue from Intermediate Sources:				
County sources:				
County apportionment	9,000	9,000	4,779	(4,221)
Revenue from State Sources:				
Grants-in-aid:				
Unrestricted grants-in-aid	394,035	394,035	330,569	(63,466)
Restricted grants-in-aid	-	-	2,875	2,875
Revenue from Federal Sources:				
Grants-in-aid:				
Restricted grants-in-aid received from federal government through the state	28,338	42,538	47,389	4,851
Other federal revenue	7,500	7,500	5,684	(1,816)
TOTAL REVENUE	1,058,273	1,072,473	1,068,702	(3,771)
EXPENDITURES:				
Instruction:				
Regular programs:				
Elementary	266,250	266,250	257,569	8,681
Middle/Junior high	167,100	167,100	160,257	6,843
High school	208,800	208,800	199,854	8,946
Special programs:				
Educationally deprived	15,634	24,634	24,423	211
Support Services:				
Pupils:				
Guidance	3,660	3,660	3,031	629
Instructional staff:				
Improvement of instruction	19,340	24,540	25,479	(939)
Educational media	21,470	21,470	15,352	6,118

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
General administration:				
Board of education	22,510	22,535	18,418	4,117
Executive administration	85,510	85,660	85,649	11
School administration:				
Office of the principal	8,345	8,345	8,273	72
Other	9,040	9,040	8,200	840
Business:				
Fiscal services	46,105	46,105	42,671	3,434
Operation and maintenance of plant	161,735	161,735	140,053	21,682
Pupil transportation	77,470	77,470	66,416	11,054
Cocurricular Activities:				
Male activities	17,185	17,185	12,639	4,546
Female activities	15,685	15,685	13,683	2,002
Combined activities	30,270	30,270	29,792	478
Contingencies	30,000	30,000		
Amount transferred		(175)		29,825
TOTAL EXPENDITURES	1,206,109	1,220,309	1,111,759	108,550
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(147,836)	(147,836)	(43,057)	104,779
OTHER FINANCING SOURCES (USES):				
Transfers out	(15,000)	(15,000)	(14,298)	702
Sale of surplus property	-	-	150	150
TOTAL OTHER FINANCING SOURCES (USES)	(15,000)	(15,000)	(14,148)	852
NET CHANGE IN FUND BALANCES	(162,836)	(162,836)	(57,205)	105,631
FUND BALANCE - BEGINNING	218,403	218,403	218,403	-
FUND BALANCE - ENDING	$ 55,567	$ 55,567	$ 161,198	$ 105,631

HERREID SCHOOL DISTRICT NO. 10-1
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - CAPITAL OUTLAY FUND - BUDGETARY BASIS
YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Revenue from Local Sources:				
Taxes:				
Ad valorem taxes	$ 74,109	$ 74,109	$ 72,591	$ (1,518)
Prior year's ad valorem taxes	150	150	18	(132)
Penalties and interest on taxes	100	100	102	2
Earnings on investments and deposits	1,250	1,250	1,185	(65)
Other revenue from local sources:				
Contributions and donations	-	-	1,350	1,350
Other	-	-	2	2
TOTAL REVENUE	75,609	75,609	75,248	(361)
EXPENDITURES:				
Instruction:				
Regular programs:				
Elementary	10,850	15,850	15,822	28
Middle/Junior high	10,850	10,850	2,254	8,596
High school	15,850	15,850	4,331	11,519
Support Services:				
Business:				
Facilities acquisition and construction	82,500	82,500	37,295	45,205
Pupil transportation	76,000	76,000	1,350	74,650
Cocurricular Activities:				
Combined activities	6,500	6,500	1,026	5,474
TOTAL EXPENDITURES	202,550	207,550	62,078	145,472
NET CHANGE IN FUND BALANCES	(126,941)	(131,941)	13,170	145,111
FUND BALANCE - BEGINNING	250,825	250,825	250,825	-
FUND BALANCE - ENDING	$ 123,884	$ 118,884	$ 263,995	$ 145,111

HERREID SCHOOL DISTRICT NO. 10-1
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - SPECIAL EDUCATION FUND - BUDGETARY BASIS
YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Revenue from Local Sources:				
Taxes:				
Ad valorem taxes	$ 145,850	$ 145,850	$ 167,105	$ 21,255
Prior year's ad valorem taxes	350	350	50	(300)
Penalties and interest on taxes	250	250	255	5
Other revenue from local sources:				
Charges for services	3,000	3,000	519	(2,481)
Revenue from State Sources:				
Grants-in-aid:				
Restricted grants-in-aid	53,604	53,604	-	(53,604)
Revenue from Federal Sources:				
Grants-in-aid:				
Restricted grants-in-aid received from federal government through the state	25,056	25,056	24,917	(139)
TOTAL REVENUE	228,110	228,110	192,846	(35,264)
EXPENDITURES:				
Instruction:				
Special programs:				
Programs for special education	97,510	97,510	88,858	8,652
Support Services:				
Pupils:				
Psychological	6,000	6,000	4,829	1,171
Speech pathology	34,500	34,530	34,525	5
Student therapy services	65,100	65,100	37,260	27,840
Special education:				
Administrative costs	25,000	25,000	22,407	2,593
TOTAL EXPENDITURES	228,110	228,140	187,879	40,261
NET CHANGE IN FUND BALANCES	-	(30)	4,967	4,997
FUND BALANCE - BEGINNING	10,754	10,754	10,754	-
FUND BALANCE - ENDING	$ 10,754	$ 10,724	$ 15,721	$ 4,997

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A
SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND
AND FOR EACH MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET
JUNE 30, 2014

NOTE 1 - BUDGETS AND BUDGETARY ACCOUNTING

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

1. Prior to the first regular board meeting in May of each year the school board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.

2. The proposed budget is considered by the school board at the first regular meeting held in the month of May of each year.

3. The proposed budget is published for public review no later than July 15 each year.

4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.

5. Before October 1 of each year, the school board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.

6. After adoption by the school board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.

7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year. No amount of expenditures may be charged directly to the contingency line item in the budget.

8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.

9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the school board.

10. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.

11. Budgets for the General Fund and each major Special Revenue Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

NOTE 2 - USGAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new school bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a school bus would be reported as an expenditure of the Support Services-Business/Pupil Transportation function of government, along with all other current Pupil Transportation related expenditures.