SHANNON COUNTY SCHOOL DISTRICT 65-1

Financial and Compliance Audit Report

Year Ended June 30, 2008

JOSEPH EVE
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SHANNON COUNTY SCHOOL DISTRICT 65-1

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JOSEPH EVE
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

School Board
Shannon County School District 65-1
Batesland, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Shannon County School District 65-1, as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the School District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Shannon County School District 65-1 as of June 30, 2008, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Shannon County School District 65-1 has not presented the management's discussion and analysis schedules that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

The budgetary comparison schedules on pages 32, 33 and 34, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 1, 2009 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Shannon County School District 65-1's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Shannon County School District 65-1. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

JOSEPH EVE

Certified Public Accountants

Billings, Montana
September 1, 2009

Basic Financial Statements

SHANNON COUNTY SCHOOL DISTRICT 65-1

Statement of Net Assets

June 30, 2008

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	$ 17,508,198	$ 2,798	$ 17,510,996
Taxes receivable	125,419		125,419
Accounts receivable	16,505		16,505
Prepaid expenses	10,000		10,000
Inventory		29,159	29,159
Internal balances	10,000	(10,000)	
Due from other governments	1,274,571	58,385	1,332,956
Total current assets	18,944,693	80,342	$ 19,025,035
Noncurrent assets			
Land and improvements	77,700		77,700
Buildings and improvements	18,375,760		18,375,760
Machinery and equipment	5,784,926	254,026	6,038,952
Accumulated depreciation	(11,153,316)	(236,550)	(11,389,866)
Total capital assets	13,085,070	17,476	13,102,546
Total assets	$ 32,029,763	$ 97,818	$ 32,127,581
Liabilities			
Current liabilities			
Accounts payable	$ 37,190	$ 22,161	$ 59,351
Accrued liabilities	56,336	1,651	57,987
Contracts payable	1,068,483		1,068,483
Deferred revenue	104,083		104,083
Current maturities of capital leases	58,315		58,315
Total current liabilities	1,324,407	23,812	1,348,219
Noncurrent liabilities			
Capital leases payable	4,726		4,726
Accrued compensated absences	167,870	1,505	169,375
Total noncurrent liabilities	172,596	1,505	174,101
Total liabilities	1,497,003	25,317	1,522,320
Net assets			
Invested in capital assets, net of related debt	13,022,029	17,476	13,039,505
Restricted for:			
Capital outlay	462,163		462,163
Retirement	7,083		7,083
Unrestricted	17,041,485	55,025	17,096,510
Total net assets	30,532,760	72,501	30,605,261
Total liabilities and net assets	$ 32,029,763	$ 97,818	$ 32,127,581

See Accompanying Notes to the Financial Statements.

SHANNON COUNTY SCHOOL DISTRICT 65-1

Statement of Activities

Year Ended June 30, 2008

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government				
Governmental activities				
Instruction	$ 10,965,519	$	$ 6,115,403	$
Support services	7,675,225		1,463,765	4,250
Community services	111,240		42,137	
Nonprogrammed charges	255,305	56,083	34,465	
Cocurricular activities	287,738			
Interest and fiscal charges	5,081			
Total governmental activities	19,300,108	56,083	7,655,770	4,250
Business-type activities				
Food service	1,020,850	32,995	588,076	
Total business-type activities	1,020,850	32,995	588,076	0
Total primary government	$ 20,320,958	$ 89,078	$ 8,243,846	$ 4,250
General revenues				
Taxes				
Gross receipts taxes				
Investment income				
Revenue from state sources				
State aid				
Other				
Revenue from federal sources				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning of year				
Prior period adjustments				
Net assets - beginning of year, restated				
Net assets - ending				

See Accompanying Notes to the Financial Statements.

Net (Expense) Revenue and Changes in Net Assets Primary Government		
Governmental Activities	Business-type Activities	Total
$ (4,850,116)	$	$ (4,850,116)
(6,207,210)		(6,207,210)
(69,103)		(69,103)
(164,757)		(164,757)
(287,738)		(287,738)
(5,081)		(5,081)
(11,584,005)	0	(11,584,005)
	(399,779)	(399,779)
0	(399,779)	(399,779)
(11,584,005)	(399,779)	(11,983,784)
236,787		236,787
349,531		349,531
361,078	372	361,450
6,010,565	119,339	6,129,904
479,286		479,286
5,188,184		5,188,184
363,806		363,806
(325,000)	325,000	
12,664,237	444,711	13,108,948
1,080,232	44,932	1,125,164
30,136,629	27,569	30,164,198
(684,101)		(684,101)
29,452,528	27,569	29,480,097
$ 30,532,760	$ 72,501	$ 30,605,261

SHANNON COUNTY SCHOOL DISTRICT 65-1

Balance Sheet - Governmental Funds

June 30, 2008

	General Fund	Special Education Fund	Impact Aid Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 39,949	$ 136,453	$ 16,863,971	$ 467,825	$ 17,508,198
Taxes receivable	56,060	20,660		48,699	125,419
Accounts receivable	16,505				16,505
Prepaid expenses	10,000				10,000
Due from other funds	10,000				10,000
Due from other governments	1,219,165	53,985		1,421	1,274,571
Total assets	$ 1,351,679	$ 211,098	$ 16,863,971	$ 517,945	$ 18,944,693
Liabilities and fund balance					
Liabilities					
Accounts payable	$ 37,190	$	$	$	$ 37,190
Accrued liabilities	41,318	15,018			56,336
Contracts payable	872,403	196,080			1,068,483
Deferred revenue	56,059	20,660		48,699	125,418
Total liabilities	1,006,970	231,758	0	48,699	1,287,427
Fund balance					
Unreserved, reported in:					
General fund	344,709				344,709
Special revenue funds		(20,660)	16,863,971	469,246	17,312,557
Total fund balances	344,709	(20,660)	16,863,971	469,246	17,657,266
Total liabilities and fund balance	$ 1,351,679	$ 211,098	$ 16,863,971	$ 517,945	$ 18,944,693

Reconciliation of fund balance per Balance Sheet to net assets per Statement of Net Assets

Total government fund balances	$ 17,657,266
Amounts reported for governmental activities in the statement of net assets are different because capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	13,085,070
Some liabilities, including capital leases and compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	(230,911)
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	21,335
Net assets - governmental activities, per statement of net assets	$ 30,532,760

See Accompanying Notes to the Financial Statements.

SHANNON COUNTY SCHOOL DISTRICT 65-1

Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds

Year ended June 30, 2008

	General Fund	Special Education Fund	Impact Aid Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Revenue from federal sources	$ 5,604,992	$ 827,378	$ 6,407,334	$ 4,250	$ 12,843,954
Revenue from state sources	5,051,044	1,438,807			6,489,851
Medicaid reimbursements	120,072	34,465			154,537
Tax revenue	93,210	38,480		83,762	215,452
Gross receipts taxes	349,531				349,531
Contributions	56,190				56,190
Rentals	56,083				56,083
Interest income	87,812		273,162	104	361,078
Other revenue	152,329			5,000	157,329
Total revenues	11,571,263	2,339,130	6,680,496	93,116	20,684,005
Expenditures					
Instruction:					
Regular programs	4,719,609			101,503	4,821,112
Special programs	3,864,409	1,950,653		20,128	5,835,190
Support services:					
Pupils	465,288	605,619			1,070,907
Instructional staff	751,041	26,838			777,879
General administration	341,299			318,020	659,319
School administration	513,982				513,982
Business	3,721,223			255,682	3,976,905
Central	129,535				129,535
Special education		136,628			136,628
Community services:					
Direction	111,240				111,240
Nonprogrammed charges	255,305				255,305
Cocurricular activities:					
Combined activities	264,233				264,233
Debt service					
Principal	55,222				55,222
Interest	5,081				5,081
Capital outlay				492,545	492,545
Total expenditures	15,197,467	2,719,738	0	1,187,878	19,105,083
Revenues over (under) expenditures	(3,626,204)	(380,608)	6,680,496	(1,094,762)	1,578,922
Other financing sources (uses)					
Transfers in/(out)	3,760,934	614,643	(6,000,577)	1,300,000	(325,000)
Total other financing sources (uses)	3,760,934	614,643	(6,000,577)	1,300,000	(325,000)
Net change in fund balances	134,730	234,035	679,919	205,238	1,253,922
Fund balances (deficit), beginning of year	231,408	(254,695)	16,184,052	264,008	16,424,773
Prior period adjustments	(21,429)				(21,429)
Fund balances, as restated	209,979	(254,695)	16,184,052	264,008	16,403,344
Fund balances, end of year	$ 344,709	$ (20,660)	$ 16,863,971	$ 469,246	$ 17,657,266

See Accompanying Notes to the Financial Statements.

SHANNON COUNTY SCHOOL DISTRICT 65-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2008

Net change in fund balances - governmental funds		$ 1,253,922
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	492,545	
Depreciation expense	(810,529)	
		(317,984)
Because some property taxes will not be collected for several months after the school district's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues in the funds exceed the revenues recognized in the statement of activities by this amount this year.		21,335
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of capital lease payments.		55,222
Compensated absences are expended as used in the governmental funds. However, they are expensed as earned on the statement of activities. In the current year, the amount used exceeded the amount earned.		67,737
Change in net assets of governmental activities		$ 1,080,232

See Accompanying Notes to the Financial Statements.

SHANNON COUNTY SCHOOL DISTRICT 65-1

Balance Sheet - Proprietary Funds

June 30, 2008

	Food Service Fund
Assets	
Current assets	
Cash and cash equivalents	$ 2,798
Inventory	29,159
Due from other governments	58,385
Total current assets	90,342
Noncurrent assets	
Capital assets	
Machinery and equipment	254,026
Accumulated depreciation	(236,550)
Total capital assets	17,476
Total assets	$ 107,818
Liabilities	
Current liabilities	
Accounts payable	$ 22,161
Accrued liabilities	1,651
Due to other funds	10,000
Total current liabilities	33,812
Noncurrent liabilities	
Accrued compensated absences	1,505
Total liabilities	35,317
Net assets	
Invested in capital assets	17,476
Unrestricted	55,025
Total net assets	72,501
Total liabilities and net assets	$ 107,818

See Accompanying Notes to the Financial Statements.

SHANNON COUNTY SCHOOL DISTRICT 65-1

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2008

	Food Service Fund
Operating revenues	
Charges for goods and services	$ 32,995
Other	119,339
Total operating revenues	152,334
Operating expenses	
Food	601,253
General and administrative	665
Payroll	347,004
Travel and training	4,219
Supplies	42,388
Equipment	16,715
Depreciation	8,606
Total operating expenses	1,020,850
Operating (loss)	(868,516)
Non-operating revenues (expenses)	
Interest income	372
State sources:	
Cash reimbursements	3,119
Federal sources:	
Cash reimbursements	563,432
Donated food	21,525
Total non-operating revenues (expenses)	588,448
(Loss) before transfers	(280,068)
Transfers in	325,000
Change in net assets	44,932
Total net assets, beginning of year	27,569
Total net assets, end of year	$ 72,501

See Accompanying Notes to the Financial Statements.

SHANNON COUNTY SCHOOL DISTRICT 65-1

Statement of Cash Flows
Proprietary Funds

Year Ended June 30, 2008

	Food Service Fund
Cash flows from operating activities	
Cash received from customers	$ 106,924
Cash paid to employees	(355,101)
Cash paid to suppliers	(656,276)
Net cash used by operating activities	(904,453)
Cash flows from investing activities	
Interest received	372
Net cash provided by investing activities	372
Cash flows from non-capital financing activities	
State reimbursements	3,119
Federal reimbursements	563,432
Transfers in	325,000
Net cash provided by non-capital financing activities	891,551
Net (decrease) in cash and cash equivalents	(12,530)
Cash and cash equivalents, beginning of year	15,328
Cash and cash equivalents, end of year	$ 2,798
Reconciliation of operating loss to net cash (used) by operating activities	
Operating loss	$ (868,516)
Adjustments to reconcile operating loss to net cash (used) by operating activities	
Depreciation	8,606
Changes in working capital components	
(Increase) in due from other governments	(45,410)
Decrease in inventory	5,881
Increase in accounts payable	3,132
(Decrease) in accrued expenses	(8,097)
Increase in due to other funds	2,535
Decrease in compensated absences	(2,584)
Net cash (used) by operating activities	$ (904,453)
Schedule of noncash capital and related financing activities	
Value of commodities received	$ 21,525

See Accompanying Notes to the Financial Statements.

SHANNON COUNTY SCHOOL DISTRICT 65-1

Statement of Fiduciary Net Assets

June 30, 2008

	Agency Funds
Assets	
Cash and cash equivalents	$ 9,371
Total assets	$ 9,371
Liabilities	
Amounts held for others	$ 9,371
Total liabilities	$ 9,371

See Accompanying Notes to the Financial Statements.

Notes to the Financial Statements

SHANNON COUNTY SCHOOL DISTRICT 65-1

Notes to the Financial Statements

Year Ended June 30, 2008

Note 1 - Nature of Business and Significant Accounting Policies

A. Nature of Business

The financial statements of the School District conform with generally accepted accounting principles (GAAP) applicable to government units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. GASB statements and interpretations constitute GAAP for governments.

B. Significant Accounting Policies

Reporting Entity

The reporting entity of Shannon County School District No. 65-1 ("School District"), consists of the primary government which includes all funds, organizations, institutions, agencies, departments, and offices that make up the legal 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.

In evaluating how to define the government for financial reporting purposes, management evaluated the involved entities on a number of criteria. It was determined that the School District is the primary government based upon the fact that it is legally separate, its governing body is separately selected and it is fiscally independent of other primary governments.

Basis of Presentation

Basic Financial Statements

The basic financial statements of the School District include the Government-wide and the fund financial statements. Under the GASB 34 reporting model, the focus is on the School District as a whole in the Government-wide financial statements, while reporting additional and detailed information about the School District's major governmental and business-type activities in the fund financial statements.

Government-wide Financial Statements

The Government-wide statement of net assets and statement of activities display information about the School District's primary government. These statements include the financial activities of the overall School District, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

Government activities are financed primarily through investment income, intergovernmental revenues and taxes. Business-type activities are financed primarily by operating grants and transfers from the Impact Aid fund. Additional revenues are earned through transactions with external parties.

The Statement of Net Assets reports all financial and capital resources, in a classified balance sheet format. Net assets are displayed in three components, as applicable, invested in capital assets net of related debt, restricted, 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.

Note 1 - Nature of Business and Summary of Significant Accounting Policies - Continued

B. Significant Accounting Policies - Continued

Basis of Presentation - Continued

Fund Financial Statements

Fund financial statements of the School District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, 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:

1. Total assets, liabilities, revenues, or expenditures/expenses 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/expenses of the individual governmental or enterprise fund are at least 5 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 School District reports the following major governmental funds:
General Fund - The general fund is the School District's primary operating fund. It accounts for all governmental financial resources, except those required to be accounted for in another fund.

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

Special Education Fund-- A fund established by South Dakota Codified (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.

Impact Aid Fund-- A fund established by SDCL 13-16-30 and 13-16-31 to account for the receipt of federal funds under the provisions of P.L 103-382, title VII for basic support. No expenditures may be directly charged to this fund.

The School District reports the following major enterprise fund:
Enterprise Fund Types- Enterprise funds are used to provides goods or services to the public for a fee that makes the entity self-supporting.

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

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

Note 1 - Nature of Business and Summary of Significant Accounting Policies - Continued

B. Significant Accounting Policies - Continued

Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method revenue is recorded when earned and expenses are recorded when liabilities are incurred, regardless of when the related cash flow takes place.

Proprietary fund operating revenue results from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses of proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting these definitions are reported as non-operating revenue and expenses. The governmental business-type activities and enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

Governmental funds are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this method revenue is recognized when measurable and available. The School District considers all revenue reported in the governmental funds to be available if the revenue is collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term debt and acquisitions under capital leases are reported as other financing sources.

Cash and Cash Equivalents

The School District pools its cash resources for depositing and investing purposes. For statement of cash flows purposes, all highly liquid investments with original maturities of three months or less, including overnight repurchase agreements and money market mutual funds, are considered cash equivalents. Certificates of deposit, regardless of maturity, are not considered to be cash equivalents.

Inventories

Inventories are 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 governmental-activities financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed. In the governmental fund financial statements, inventories in the General Fund and special revenue funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. No material supply inventories in the governmental-activities or governmental fund financial statements existed as of June 30, 2008.

In the proprietary fund financial statements, inventories consist of expendable food supplies held for consumption.

Accounts and Loans Receivable

Accounts receivable consist primarily of tax revenue receivable from the local County. The School District feels that these receivables are fully collectible and as such no allowance has been established.

Note 1 - Nature of Business and Summary of Significant Accounting Policies - Continued

B. Significant Accounting Policies - Continued

Prepaids

The cost of governmental fund type insurance and other prepaids are recorded on the consumption method rather than when purchased.

Due From Funding Agencies

Due from funding agencies receivable consists of amounts due for reimbursement of approved expenditures on grants and contracts entered into with various governmental agencies. Receivables of this nature are not collateralized and are considered fully collectible. Amounts received from the federal government for grants and contracts are recognized as revenue when they are expended or obligated. Unspent or unobligated funds must generally be returned to the funding agency and therefore are not recognized as revenue. Expenditures are recorded when the related fund liability is incurred.

Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as interfund receivables/payables in the fund financial statements, and are eliminated in the government-wide Statement of Net Assets, except those between the governmental-type activities and business-type activities. Quasi-external transactions are accounted for as revenues or expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the fund that is reimbursed. All other interfund transfers are reported as operating transfers.

Capital Assets and Depreciation

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. Capital assets are recorded at historical cost. Contributed assets, including those from the federal government, are recorded at estimated fair value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

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

Government-Wide Statements

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

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

Note 1 - Nature of Business and Summary of Significant Accounting Policies - Continued

B. Significant Accounting Policies - Continued

Capital Assets and Depreciation - 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 Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets for the government-wide statements and proprietary funds are as follows:

Governmental Funds Asset Category	Capitalization Threshold	Years
Buildings and improvements	$5,000	15 to 50
Land improvements	5,000	15 to 50
Machinery and equipment	5,000	3 to 20
Food service equipment	5,000	3 to 15

Depreciation is provided using the straight-line method over estimated useful lives.

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.

Compensated Absences

The Shannon County School District 65-1 accrues the cost of unpaid vacation. Accrued sick leave is not recorded, as the School District has no legal obligation to pay such benefits upon termination. Accrued liabilities include $169,375 of accrued vacation at June 30, 2008.

Interest Income

Interest earned on cash and investment balances is recorded as revenue when earned.

Program Revenues

Government-Wide Statements:

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

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

Note 1 - Nature of Business and Summary of Significant Accounting Policies - Continued

B. Significant Accounting Policies - Continued

Program Revenues - Continued

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.

Equity Classifications

Government-wide Statements:

Equity is classified as net assets and is displayed in three components

1. Invested in capital assets, net of related debt – 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 assets – Consists of net assets 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 assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" 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 assets held in trust for other purposes.

Application of Net Assets:

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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:

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.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository failure the School District's deposits may not be returned to it. The School District currently does not have a deposit policy for custodial credit risk. As of June 30, 2008, the School District's deposits were fully insured or collateralized and were not exposed to custodial credit risk.

Investments

As of June 30, 2008 the School District had no investments.

Interest Rate Risk

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

Credit Risk

State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices. As of June 30, 2008 the School District had no investments.

Concentration of Credit Risk

The School Board places no limit on the amount that may be invested in any one issuer. As of June 30, 2008 the School District had no investments.

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

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 all income from deposits and investments to the General Fund, except for the Food Service Fund which retains its investment income. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities. These interfund transfers are not violations of the statutory restrictions on interfund transfers.

Note 3 - Due From Other Governments

The following amounts are due from the respective funding agencies at June 30, 2008 for grant/contract program reimbursements:

U.S. Government	
Agriculture - Pass through the State of South Dakota	$ 58,385
Education	144,649
Education - Pass through the State of South Dakota	1,122,581
Shannon County	7,341
Total U.S. Government	$ 1,332,956

Note 4 - Interfund Activity

Amounts due from and due to other funds as of June 30, 2008 are as follows:

	Receivables	Payables
General fund	$ 10,000	$
Food Service fund		10,000
	$ 10,000	$ 10,000

Interfund balances represent non-interest bearing amounts owed to or from programs for administrative services rendered and for payments made on behalf of such programs. Amounts are generally due upon demand.

Interfund transfers are summarized as follows:

Transfers From	Transfers To	Purpose	Total
Impact Aid	General Fund	Operating expenses	$ 3,500,000
Impact Aid	Capital Outlay	Capital and operating expenses	1,300,000
Impact Aid	Special Education	Operating expenses	614,643
Impact Aid	Food Service	Operating expenses	325,000
Impact Aid	General Fund	Interest income	260,934
Total			$ 6,000,577

SHANNON COUNTY SCHOOL DISTRICT 65-1

Notes to the Financial Statements

Year Ended June 30, 2008

Note 5 - Capital Assets

Capital assets activity for the year ended June 30, 2008, is summarized as follows:

	Restated balance 7/1/2007	Additions	Deletions	Balance 06/30/2008
Governmental activities				
Capital assets not being depreciated				
Land	$ 77,700	$ 0	$ 0	$ 77,700
Total capital assets not being depreciated	77,700	0	0	77,700
Capital assets being depreciated				
Improvements	690,704			690,704
Buildings	17,520,804	164,252		17,685,056
Machinery and equipment	5,577,583	328,293	(120,950)	5,784,926
Total capital assets being depreciated	23,789,091	492,545	(120,950)	24,160,686
Less accumulated depreciation				
Improvements	(152,929)	(34,535)		(187,464)
Buildings	(6,016,995)	(384,550)		(6,401,545)
Machinery and equipment	(4,293,813)	(391,444)	120,950	(4,564,307)
Total accumulated depreciation	(10,463,737)	(810,529)	120,950	(11,153,316)
Net capital assets being depreciated	13,325,354	(317,984)	0	13,007,370
Net capital assets	$ 13,403,054	$ (317,984)	$ 0	$ 13,085,070

	Balance 7/1/2007	Additions	Deletions	Balance 6/30/2008
Business Type activities				
Capital assets being depreciated				
Equipment	$ 254,026	$ 0	$ 0	$ 254,026
Total capital assets being depreciated	254,026	0	0	254,026
Less accumulated depreciation				
Equipment	(227,944)	(8,606)	0	(236,550)
Total accumulated depreciation	(227,944)	(8,606)	0	(236,550)
Net capital assets being depreciated	26,082	(8,606)	0	17,476
Net capital assets	$ 26,082	$ (8,606)	$ 0	$ 17,476

Depreciation expense was charged to functions as follows:

Government Activities	
Instruction	$ 309,217
Support services	477,807
Cocurricular activities	23,505
Total governmental activities depreciation expense	$ 810,529
Business-type activities	
Food service	$ 8,606
Total business-type activities depreciation expense	$ 8,606

SHANNON COUNTY SCHOOL DISTRICT 65-1

Notes to the Financial Statements

Year Ended June 30, 2008

Note 6 - Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008, were as follows:

	Balance 7/1/2007	Additions	Reductions	Balance 6/30/2008
Governmental				
Capital leases	$ 118,262	$	$ (55,221)	$ 63,041
Compensated absences	235,607	112,782	(180,519)	167,870
Governmental long-term liabilities	353,869	112,782	(235,740)	230,911
Business-type				
Compensated absences	4,089	835	(3,419)	1,505
Business-type long term liabilities	4,089	835	(3,419)	1,505
Total governmental and business-type activities	$ 357,958	$ 113,617	$ (239,159)	$ 232,416

Capital leases payable at June 30, 2008, are summarized as follows:

Governmental Activities	
Copier lease, payments made from Capital Projects Fund, 5.13% interest rate, monthly payment of $4,184, matures July 2009	$ 59,938
Copier lease, payments made from Title I Funds in General Fund, 11.66% interest rate, monthly payment of $275, matures June 2009	3,103
Total governmental activities	63,041
Less current maturities	58,315
Total long-term debt, net of current maturities	$ 4,726

Annual debt service requirements to maturity for notes payable are as follows:

	Governmental Activities	
Year	Principal	Interest
2009	$ 58,315	$ 1,987
2010	4,726	25
	$ 63,041	$ 2,012

Compensated absences liabilities are typically paid by the fund that incurred the liability.

Note 7 - Retirement Plan

All certified 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% 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, 2008, 2007 and 2006 were $337,063, $323,157 and $325,038, respectively, equal to the required contributions each year.

Note 8 - Deferred Annuity

The School District also provides a deferred annuity retirement plan to full time classified employees meeting certain eligibility requirements. For employees, the school district contributes 1 to 5 percent of the employee's contract salary. Employees are encouraged to contribute to the plan as well. Contributions were made by the School District and the employees as follows:

Year	School District	Employees
2008	$ 77,305	$ 29,644

Note 9 - Property Taxes

Property taxes are levied on or before each October 1, and 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 10 - Restricted Net Assets

The following table shows the net assets restricted for other purposes as shown on the Statement of Net Assets at June 30, 2008:

Capital Outlay Fund	$ 462,163
Pension Fund	7,082
Total restricted net assets	$ 469,245

The Capital Outlay and Pension funds are restricted by law. The Food Service fund is restricted by federal program regulations.

Note 11 - Litigation

At June 30, 2008, the School District was involved in several lawsuits. No determination can be made at this time regarding the potential outcome of these lawsuits. However, as discussed in the following note, the School District has liability coverage for itself and its employees. Therefore, no material negative effects are anticipated to the School District as a result of the potential outcome of these lawsuits.

Note 12 - 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, 2008, the School District managed its risks as follows:

Employee Health Insurance

The School District joined the South Dakota School District 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 School District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage provides a deductible of $100 per person up to $200 per family. The plan also provides for coinsurance of 80 percent up to $2,500. The coverage also includes a $2,000,000 lifetime maximum payment per person. Included in the health insurance premium is a $15,000 life insurance and accidental death insurance.

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

Liability Insurance

The School District joined the Associated School Boards of South Dakota Property Liability Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts. The school district pays a premium to the pool to provide coverage for property, general, non-owned automobile, employee benefits, and crime liabilities.

The agreement with the Associated School Boards of South Dakota Property Liability Fund provides that the coverages will be provided to a $6,000,000 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 School District carries a $500 deductible for the property liability coverage and a $500 deductible for the crime liability coverage.

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

Note 12 - Risk Management - Continued

Workers' Compensation

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provided workers' compensation insurance coverage for participating members of the pool. The School District is responsible for payment of a premium to the insurance pool along with other pool participants. The School District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments.

Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk.

Unemployment Benefits

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

Note 13 - Prior Period Adjustments

Prior period adjustments of $684,101 were recorded to correct certain prior year balance sheet accounts:

	Governmental Activities	General Fund	Effect on FY 2007 Change in Net Assets
Beginning net assets/fund balance as previously reported	$ 30,136,629	$ 231,408	
To correct to understatement of lease payments in general fund for prior year.	(855)	(855)	Unknown
To correct beginning balances for general fund cash.	(20,574)	(20,574)	Unknown
To correct understated of compensated absence expense for prior year.	(134,619)		$ (134,619)
To correct beginning balances for improvements, buildings and machinery /equipment; ($100), $77,700 and ($3,000), respectively.	74,600		$ 74,600
To correct beginning balances for accumulated depreciation of improvements, buildings and machinery/equipment; $1,607, ($439,452) and (164,808), respectively.	(602,653)		$ (602,653)
Beginning net assets/fund balance as restated	$ 29,452,528	$ 209,979	

Required Supplemental Information

REQUIRED SUPPLEMENTARY INFORMATION
SHANNON COUNTY SCHOOL DISTRICT NO. 65-1
BUDGETARY COMPARISON SCHEDULE - (BUDGETARY BASIS- MODIFIED ACCRUAL)
GENERAL FUND
For the Year Ended June 30, 2008

	Budgeted Amounts			Variance with
	Original	Final	Actual Amounts	Final Budget
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	$ 91,283	$ 91,283	$ 89,496	$ (1,787)
Prior Years' Ad Valorem Taxes	10,000	10,000	1,633	(8,367)
Gross Receipts Taxes	325,000	325,000	349,531	24,531
Penalties and Interest on Taxes	4,000	4,000	663	(3,337)
Earnings on Investments and Deposits				
Interest Earned	350,000	350,000	87,812	(262,188)
Cocurricular Activities:				
Rentals	62,000	62,000	56,083	(5,917)
Other Revenue from Local Sources:				
Contributions	-	-	56,190	56,190
Refund of Prior Years' Expenditures	-	-	111,183	111,183
Other	25,000	25,000	41,146	16,146
Revenue from Intermediate Sources:				
County Sources:				
County Apportionment	2,500	2,500	6,554	4,054
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	4,384,830	4,461,830	5,030,895	569,065
Restricted Grants-in-Aid	-	-	30,965	30,965
Other State Revenue	52,000	52,000	28,900	(23,100)
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received Directly from Federal Government	1,922,464	1,922,464	1,079,223	(843,241)
Restricted Grants-in-Aid Received from Federal Government Through the State	4,024,760	4,024,760	4,498,817	474,057
Revenue in Lieu of Taxes (PILT)	-	-	1,418	1,418
Other Federal Revenue	97,733	97,733	100,754	3,021
Total Revenue	$ 11,351,570	$ 11,428,570	$ 11,571,263	$ 142,693
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	$ 3,325,470	$ 3,325,470	$ 2,796,533	$ 528,937
High School	340,300	340,300	257,757	82,543
Preschool Services	893,404	893,404	693,559	199,845
Other Regular Programs	1,146,545	1,146,545	971,761	174,784
Special Programs:				
Culturally Different	229,755	229,755	209,109	20,646
Educationally Deprived	2,931,125	2,931,125	2,889,827	41,298
Other Special Programs	580,000	580,000	765,473	(185,473)
Support Services:				
Pupils:				
Attendance and Social Work	124,673	124,673	100,124	24,549
Guidance	179,500	179,500	185,027	(5,527)
Health	171,200	171,200	180,137	(8,937)

REQUIRED SUPPLEMENTARY INFORMATION
SHANNON COUNTY SCHOOL DISTRICT NO. 65-1
BUDGETARY COMPARISON SCHEDULE - (BUDGETARY BASIS- MODIFIED ACCRUAL)
GENERAL FUND
For the Year Ended June 30, 2008

	Budgeted Amounts			Variance with
	Original	Final	Actual Amounts	Final Budget
Expenditures - Continued:				
Support Services - Instructional Staff:				
Improvement of Instruction	525,399	525,399	433,868	91,531
Educational Media	343,100	343,100	317,172	25,928
Support Services - General Administration:				
Board of Education	102,420	102,420	85,864	16,556
Executive Administration	310,500	310,500	255,435	55,065
Support Services - School Administration:				
Office of the Principal	820,150	820,150	506,747	313,403
Other	-	-	7,235	(7,235)
Support Services - Business:				
Fiscal Services	339,600	339,600	332,305	7,295
Facilities Acquisition and Construction				-
Operation and Maintenance of Plant	1,605,190	1,605,190	1,845,921	(240,731)
Pupil Transportation	1,289,000	1,289,000	1,603,300	(314,300)
Support Services - Central:				
Planning	197,314	197,314	129,535	67,779
Staff	3,500	3,500	-	3,500
Community Services:				
Direction	11,200	11,200	5,336	5,864
Custody and Care of Children	117,899	117,899	105,904	11,995
Nonpublic School	40,000	40,000	-	40,000
Nonprogrammed Charges:				
Payments to State - Unemployment	45,000	45,000	23,730	21,270
Early Retirement Payments	102,300	102,300	216,730	(114,430)
Self-Insurance Costs	30,000	30,000	14,845	15,155
Cocurricular Activities:				
Combined Activities	104,700	104,700	264,233	(159,533)
Contingencies	250,000	250,000	-	
Amount Transferred				250,000
Total Expenditures	16,159,244	16,159,244	15,197,467	961,777
Excess of Revenue Over (Under) Expenditures	(4,807,674)	(4,730,674)	(3,626,204)	1,104,470
Other Financing Sources:				
Transfers In	5,126,148	5,389,448	3,760,934	(1,628,514)
Transfers Out	(800,741)	(800,741)		800,741
Total Other Financing Sources (Uses)	4,325,407	4,588,707	3,760,934	(827,773)
Net Change in Fund Balances	(482,267)	(141,967)	134,730	276,697
Fund Balance - Beginning	374,031	645,363	209,979	(435,384)
FUND BALANCE - ENDING	$ (108,236)	$ 503,396	$ 344,709	$ (158,687)

REQUIRED SUPPLEMENTARY INFORMATION
SHANNON COUNTY SCHOOL DISTRICT NO. 65-1
BUDGETARY COMPARISON SCHEDULE - (BUDGETARY BASIS- MODIFIED ACCRUAL)
SPECIAL EDUCATION FUND
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final	(Budgetary Basis - Modified Accrual)	Positive (Negative)
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	$ 33,495	$ 33,495	$ 35,723	$ 2,228
Prior Years' Ad Valorem Taxes	2,000	2,000	457	(1,543)
Penalties and Interest on Taxes	1,500	1,500	2,301	801
Revenue from State Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid	1,521,904	1,521,904	1,438,807	(83,097)
Revenue from Federal Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid Received Directly from Federal Government	240,000	240,000	254,686	14,686
Restricted Grants-in-Aid Received from Federal Government Through the State	559,109	559,109	607,156	48,047
Total Revenue	$ 2,358,008	$ 2,358,008	$ 2,339,130	$ (18,878)
Expenditures:				
Instruction:				
Special Programs:				
Programs for Special Education	$ 2,231,272	$ 2,231,272	$ 1,950,653	$ 280,619
Other Special Programs	180,000	180,000	-	180,000
Support Services:				
Pupils:				
Attendance and Social Work	62,669	62,669	63,709	(1,040)
Psychological	68,615	68,615	63,597	5,018
Speech Pathology	375,853	375,853	369,789	6,064
Student Therapy Services	91,200	91,200	108,524	(17,324)
Support Services - Instructional Staff:				
Improvement of Instruction	28,000	28,000	26,838	1,162
Support Services - Special Education				
Administrative Costs	117,630	117,630	114,555	3,075
Transportation Costs	-	-	22,073	(22,073)
Total Expenditures	3,155,239	3,155,239	2,719,738	435,501
Excess of Revenue Over (Under) Expenditures	(797,231)	(797,231)	(380,608)	416,623
Other Financing Sources:				
Transfers In	797,231	797,231	614,643	(182,588)
Total Other Financing Sources (Uses)	797,231	797,231	614,643	(182,588)
Net Change in Fund Balances	-	-	234,035	234,035
Fund Balance - Beginning	96,681	96,681	(254,695)	(351,376)
FUND BALANCE - ENDING	$ 96,681	$ 96,681	$ (20,660)	$ (117,341)

SHANNON COUNTY SCHOOL DISTRICT 65-1

Notes to the Required Supplementary Information

June 30, 2008

Note 1 - Basis of Presentation

The Budgetary Comparison Schedule has been prepared on the modified accrual basis of accounting. The Budgetary Comparison Schedule presents expenditures for capital outlay purposes within each function while the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance presents capital outlay expenditures as a separate function.

Note 2 - Budgets and Budgetary Accounting

The school district follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first regular board meeting in May of each year, the school board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the school board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the school board must approve the budget for the ensuing fiscal year for each fund, except trust and agency 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 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.
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.

Supplemental Information

SHANNON COUNTY SCHOOL DISTRICT 65-1

Combining Balance Sheets - Other Governmental Funds

June 30, 2008

	Capital Outlay Fund	Pension Fund	Total Nonmajor Governmental Funds
Assets			
Cash and cash equivalents	$ 460,897	$ 6,928	$ 467,825
Taxes receivable	44,272	4,427	48,699
Due from other governments	1,266	155	1,421
Total assets	$ 506,435	$ 11,510	$ 517,945
Liabilities and fund balances			
Liabilities			
Deferred revenue	$ 44,272	$ 4,427	$ 48,699
Total liabilities	44,272	4,427	48,699
Fund balances			
Reserved for retirement		7,083	7,083
Reserved for capital outlay	462,163		462,163
Total fund balances	462,163	7,083	469,246
Total liabilities and fund balances	$ 506,435	$ 11,510	$ 517,945

SHANNON COUNTY SCHOOL DISTRICT 65-1

Combining Statement of Revenue, Expenditures And Changes in Fund Balance - Other Governmental Funds

Year Ended June 30, 2008

	Capital Outlay Fund	Pension Fund	Total Non-Major Funds
Revenue			
Revenue from federal sources	$ 4,250	$	$ 4,250
Tax revenue	78,029	5,733	83,762
Interest income	104		104
Other revenue	5,000		5,000
Total revenues	87,383	5,733	93,116
Expenditures			
Instruction:			
Regular programs	101,503		101,503
Special programs	20,128		20,128
Support services:			
General administration	318,020		318,020
Business	255,682		255,682
Capital outlay	492,545		492,545
Total expenditures	1,187,878	0	1,187,878
Revenue over (under) expenditures	(1,100,495)	5,733	(1,094,762)
Other financing sources (uses)			
Transfers in	1,300,000		1,300,000
Total other financing sources (uses)	1,300,000	0	1,300,000
Net change in fund balances	199,505	5,733	205,238
Fund balances, beginning of year	262,658	1,350	264,008
Fund balances, end of year	$ 462,163	$ 7,083	$ 469,246

SHANNON COUNTY SCHOOL DISTRICT 65-1

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2008

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Grantor Number	Federal Expenditures
U.S. Department of Agriculture			
Pass-through South Dakota Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553	2008IN109943	$ 159,588
National School Lunch Program	10.555	2008IN109943	312,585
Summer Food Service Program for Children	10.559	2008IN109943	310,684
Total Child Nutrition Cluster			782,857
Fresh Fruit and Vegetable Program	10.582	2008IN770343	105,575
Total U.S. Department of Agriculture			888,432
U.S. Department of Education			
Direct Programs			
Impact Aid			
Basic Support	84.041	S041B-2008-4664	6,411,583
Special Education	84.041		244,872
Total Impact Aid		Total CFDA 84.041	6,656,455
Indian Education Grants to Local Education Agencies (Title VII, Part A)	84.060	S060A070556	187,337
Early Reading First	84.359	S359B040111	739,536
Special Education Cluster			
Special Education -- Grants to States (IDEA, Part B)	84.027	H027A070091	563,948
Special Education -- Preschool Grants (IDEA, Part B)	84.173	H173A070091	18,558
Total Special Education Cluster			582,506
Grants to Local Educational Agencies			
Basic Support	84.010	S010A070041	3,185,939
School Improvement	84.010		187,746
Total Grants to Local Educational Agencies		Total CFDA 84.010	3,373,685
Improving Teacher Quality State Grants	84.367	S367A070039	802,164
Safe and Drug-Free Schools and Communities State Grants -- (Title IV, Part A)	84.186	Q186A070043	64,131
State Grants for Innovative Programs	84.298	S298A070042	5,710
Education Technology State Grants (Title II, Part D) Basic Support	84.318	S318A070041	77,477
Comprehensive School Reform Demonstration (Title I, Part F)	84.332	S332A050043	6,400
Rural Education (Title VI, Part B)	84.358	S358B070041	26,360

See Notes to the Supplementary Schedule of Expenditures of Federal Awards.

SHANNON COUNTY SCHOOL DISTRICT 65-1

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2008

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Grantor Number	Federal Expenditures
U.S Department of Education - Continued			
Tobacco Prevention Grant	84.184		5,000
Twenty-First Century Community Learning Centers	84.287	S2587C060042	103,802
English Language Acquisition Grants (Title III, Part A)	84.365	T365C060012-07-08	152,350
Pass-through South Dakota Department of Education			
English Language Acquisition Grants (Title III, Part A)	84.365	T365C060012-07-08	61,039
Total U.S. Department of Education			12,843,952
General Services Administration			
Passed Through South Dakota Federal Property Agency			
Donation of Federal Surplus Personal Property (Note 4)	39.003		2,194
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 13,734,578

See Notes to the Supplementary Schedule of Expenditures of Federal Awards.

SHANNON COUNTY SCHOOL DISTRICT 65-1

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

Note 1 - Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Shannon County School District 65-1 and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipients

Of the expenditures presented in the schedule, the School District provided no awards to subrecipients.

Note 3 - Outstanding Federal Loans

The School District has no federal loan obligations as of June 30, 2008.

Note 4 - Donated Surplus Property

The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the School District. (Original acquisition cost is obtained from the Donated Federal Surplus Property Listing.)

JOSEPH EVE
Certified Public Accountants

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
Shannon County School District 65-1
Batesland, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Shannon County School District 65-1 (the "School District") as of and for the year ended June 30, 2008, and have issued our report thereon dated September 1, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 08-1 through 08-11 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 08-1, 08-2, 08-3, 08-5, 08-6, 08-7 and 08-9 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 08-10 and 08-11.

Shannon County School District 65-1's response to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit Shannon County School District 65-1's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the federal awarding agencies and pass-through entities, the South Dakota Legislature, state granting agencies, the governing board and management of the Shannon County School District 65-1, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 and OMB Circular A-133, this report is matter of public record and its distribution is not limited.

JOSEPH EVE
Certified Public Accountants

Billings, Montana
September 1, 2009

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

School Board
Shannon County School District 65-1
Batesland, South Dakota

Compliance

We have audited the compliance of Shannon County School District 65-1 (the "School District") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 School 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. Our audit does not provide a legal determination of the School District's compliance with those requirements.

As described in items 08-12 through 08-16 in the accompanying schedule of findings and questioned costs, the School District did not comply with requirements regarding federal compliance that are applicable to its major federal programs. More specifically we noted the following areas of non-compliance:

Title I Grants to Local Education Agencies -- CFDA# 84.010
Allowable Cost/Cost Principles and Procurement, Suspension and Debarment
Impact Aid -- CFDA #84.041
Allowable Cost/Cost Principles and Davis-Bacon
Early Reading First -- CFDA #84.359
Allowable Cost/Cost Principles
Special Education Cluster -- CFDA #84.027/84.173
Procurement, Suspension and Debarment

Compliance with such requirements is necessary, in our opinion, for the School District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the School District complied, in all material respects, with the requirements referred to above that are applicable to the Title I Grants to Local Education Agencies, Impact Aid, Early Reading First and Special Education Cluster major federal programs.

Furthermore, in our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to the Child Nutrition Cluster and Improving Teacher Quality State Grants major federal programs for the year ended June 30, 2008.

Internal Control over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 08-12 through 08-16 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 08-12, 08-13 and 08-14 to be material weaknesses.

Shannon County School District 65-1's responses to the findings identified in our audit are included with the finding. The School District did not provide a corrective action plan as required by governmental auditing standards. We did not audit Shannon County School District 65-1's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the federal awarding agencies and pass-through entities, the South Dakota Legislature, state granting agencies, the governing board and management of the Shannon County School District 65-1, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 and OMB Circular A-133, this report is matter of public record and its distribution is not limited.

JOSEPH EVE
Certified Public Accountants

Billings, Montana
September 1, 2009

SHANNON COUNTY SCHOOL DISTRICT 65-1

Schedule of Findings and Questioned Costs

June 30, 2008

1. **Summary of Auditors' Results**

Financial Statements
Type of auditors' report issued: Unqualified
Internal control over financial reporting:

Material weakness(es) identified?	X Yes	____ No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	X Yes	____ No
• Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards
Internal control over major programs:

• Material weakness(es) identified?	X Yes	____ No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	X Yes	____ No

Type of auditors' report issued on compliance for major programs:

Programs:	CFDA	Opinion
Title I Grants to Local Education Agencies	84.010	Qualified
Impact Aid	84.041	Qualified
Early Reading First	84.359	Qualified
Special Education Cluster	84.027/84.173	Qualified
Child Nutrition Cluster	10.559/10.555/10.553	Unqualified
Improving Teacher Quality State Grants	84.367	Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X Yes ____ No

SHANNON COUNTY SCHOOL DISTRICT 65-1

Schedule of Findings and Questioned Costs

June 30, 2008

1. Summary of Auditors' Results - Continued

Federal Awards - Continued

Identification of major programs

CFDA Number(s)	Federal Program or Cluster
10.553/10.555/10.559	Child Nutrition Cluster
84.041	Impact Aid
84.359	Early Reading First
84.010	Title I Grants to Local Educational Agencies
84.367	Improving Teacher Quality State Grants
84.027/84.173	Special Education Cluster

Dollar threshold used to distinguish between
Type A and Type B programs: $412,037

Auditee qualified as low-risk auditee? _____ Yes __X__ No

Instances where results of audit follow-up procedures disclosed that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding? _____ Yes __X__ No

SHANNON COUNTY SCHOOL DISTRICT 65-1

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

2. Audit Findings in Relation to Financial Statements

08-1 Internal Controls - Entity Wide

Criteria or Specific Requirement: A non-federal entity receiving federal awards is required to establish and maintain internal controls that operate effectively throughout a period, to provide reasonable assurance regarding the reliability of the entity's financial statements and compliance with the requirements of laws and regulations. The five components of internal control - control environment, risk assessment, control activities, information/communication and monitoring - need to be properly designed, implemented and operating effectively throughout the year in order to meet the objectives of internal control.

Condition: We noted deficiencies in the design and operation of the five components of internal control for the School District. More specifically we noted the following deficiencies:

Control Environment

- The organizational structure of the School District is not appropriately designed to promote a sound control environment or to provide an efficient and effective transfer of accounting and internal control information from the School District to the School Board for review.

Risk Assessment

- Mechanisms are not in place to identify risks applicable to the entity and financial reporting objectives, including (1) changes in operating, economic, and regulatory environments; (2) participation in new programs or activities; (3) new service offerings; (4) communication at various levels of management; (5) application processes; and (6) information technology infrastructure and processes.
- Management does not evaluate risks as part of the planning process.
- Management does not have a process to identify risks associated with nonroutine transactions.
- Risks related to the ability of an employee to initiate and process unauthorized transactions are not appropriately identified.
- Fraud assessments are not an integral part of the risk identification process.

Monitoring

- Management does not have a process for monitoring controls over financial reporting through ongoing monitoring, independent evaluations, and remediation of identified deficiencies.
- Aside from the Business Manager, management does not have the expertise necessary to prevent, detect and correct potential misstatements in the preparation of the financial statements and notes to the financial statements. Controls are not in place to adequately monitor the work of the Business Manager.
- School district and financial reporting objectives are not established, documented, and communicated.

2. Audit Findings in Relation to Financial Statements - Continued

08-1 Internal Controls - Entity Wide-Continued

Context: We inquired of management, observed accounting processes and tested controls.

Effect: Those charged with governance (the School Board) can not perform their required fiduciary duties.

Cause: The control environment component of internal control, which sets the tone of an organization and is the foundation for all the other components of internal control by providing discipline and structure, did not operate effectively throughout the audit period. Additionally, the School District has not performed a risk assessment to assist in identifying control deficiencies.

Auditors' Recommendations: We recommend that the School District strengthen its internal controls by addressing the provisions of the five components of internal control and making structural changes in its entity-wide controls. The School District should perform an annual risk assessment and modify/develop policies and procedures to mitigate identified risks. In addition, the School District may want to outsource the internal audit function and obtain assistance in performing and training on monthly/yearly accounting processes.

Management Response: Additional staff has been hired, as well as looking for an outside audit firm to come in on a quarterly basis to review bank reconciliations and do some random testing on the different programs in the district.

2. Audit Findings in Relation to Financial Statements - Continued

08-2 Segregation of Duties and Internal Controls - Accounting Functions

Criteria or Specific Requirement: Internal controls and adequate segregation of duties should be in place that provide reasonable assurance that all financial transactions are reviewed and approved before payment is made and reports are generated. The South Dakota Legislative Audit Accounting manual, federal regulations and sound business practices all require that appropriate documentation be accumulated to support financial transaction budgets. Internal controls should be implemented to allow timely review and oversight of the programs and so all records can be retained in a manner to facilitate an audit.

Condition: An adequate system of accounting duties and functions has not been achieved to assure adequate internal control over safeguarding of assets and the reliability of financial records and reporting. Although the School District has a documented system of fiscal management (section D in the School District's Policy Manual), we noted during our audit procedures, significant deviations from the established system. More specially we noted:

Cash, Accounts Receivable and Bank Reconciliations

- Adjustments of cash accounts are not being approved by the appropriate level of management or another appropriate person.
- Cash receipts are not reconciled to general ledger postings daily.
- Individuals who post cash receipts are not independent of mail opening, maintenance of the cash receipts journal, posting journal entries to the general ledger, preparing and depositing cash receipts and reconciling bank accounts.
- Individuals who deposit cash receipts are not independent of reconciling bank accounts, maintenance of the cash receipts journal and posting journal entries to the general ledger.
- Individuals who reconcile bank accounts have access to cash receipts.

Investments

- The School District does not have an adopted investment policy on segregation, pooling, or disposition of investments and/or use of income or proceeds to ensure that it meets restrictions or limitations imposed by laws, funding sources or the governing body.
- Individuals who initiate investing transactions are not independent of approving, recording and reconciling investing transactions.

2. Audit Findings in Relation to Financial Statements - Continued

08-2 Segregation of Duties and Internal Controls - Accounting Functions-Continued

Expenditures, Accounts Payable and Accruals

- The School District's system does not reject duplicate entries of an invoice from a vendor.
- Individuals who review, authorize, or sign checks are not independent of check processing, check mailing and reconciliation of bank accounts.
- Check signers are not reviewing all supporting documentation prior to signing a check.
- Individuals who initiate and approve purchase orders are not independent of check processing and mailing of checks.
- After each period end, management is not creating a log of all invoices received above the limit dictated by entity policy and checking to ensure that they were recorded in the proper period.
- Purchase orders, invoices or receipts are not consistently obtained prior to payment.
- Management is not ensuring that supporting documentation is provided before approving payments.

Payroll

- Payroll registers are not reviewed after processing, reconciled to control totals, and approved by an appropriate level of management.

Capital Assets

- Management is not tracking capital asset acquisitions and remaining costs and comparing to capital budgets.
- Management is not performing physical inventories to determine whether the assets still physically exist.
- The capital assets subledger is not reconciled to the general ledger on a monthly basis.
- The School District does not have a capitalization and useful lives policy that has been formally reviewed and approved by management and communicated to departments that request capital asset purchases.
- The School District has not designated an individual to be responsible for monitoring all significant construction projects.
- Individuals who initiate the purchase of capital assets are not independent of authorization, recording and reconciling the capital assets subledger to the general ledger.

2. Audit Findings in Relation to Financial Statements - Continued

08-2 Segregation of Duties and Internal Controls - Accounting Functions-Continued

Information Technology (IT)

- Recovery of a sample backup on an annual basis to test for accuracy and completeness has not been implemented.
- Adequate segregation of duties does not exist over the accounts payable, fixed assets and general ledger modules.
- IT personnel share user accounts and passwords.
- Network devices are not being kept current with the latest fixes, patches, and updates to ensure the highest level of network security.
- Industry-standard password policies are not being implemented.
- User access rights are not granted on a need-to-know basis and need-to-do basis.
- Formalized change management policies and procedures do not exist and are not being updated as required.

Context: We performed inquiry, observation, testing and completed industry standard internal control questionnaires for the aforementioned functions. Management's responses and our observations were reviewed and control deficiencies noted.

Effect: For the year ended June 30, 2008 the School District did not have proper internal controls over several accounting functions and/or transaction classes which increased the risk of asset misappropriation. The effects of the deficiencies and lack of segregation of duties and lack of internal controls directly result in all of the reported findings and questioned costs.

Cause: The School District has not performed an overall risk assessment and modified policies and procedures to address identified risks. Monitoring controls are not in place to ensure that personnel follow the documented policies and procedures.

Auditors' Recommendations: We recommend that the School District implement proper internal control procedures to address the deficiencies identified above. We also recommend that the School District perform regular internal audits to ensure that adopted policies and procedures have been implemented and are operating effectively.

Management Response: An accounting assistant has been hired as well as the continuation of a consultant to assist the business manager with preparing for the audit. The assistant accountant will also assume some of the duties of the business manager. The accounting procedures will be split between the two positions. The School District will work with the school attorney to write and implement a policy on investments. We have upgraded our fixed asset module in our software accounting system and the entries have been made accordingly.

2. Audit Findings in Relation to Financial Statements - Continued

08-3 Account Reconciliation and Analysis

Criteria or Specific Requirement: An accounting system should provide timely and accurate information for management. The School District's accounting staff should periodically reconcile general ledger accounts to subsidiary ledgers and other supporting documentation.

Condition: During the course of our audit we noted that the School District reconciliations for cash, accounts receivable, accounts payable, depreciation expense, compensated absences and capital leases were incorrect or had not yet been prepared. As such, many material adjusting journal entries were required after the books were closed at year end.

Context: There were 18 adjustments made to the opening 2008 account balances provided by management. More specifically there were $1,223,271 in asset adjustments, $143,908 in liability adjustments, $319,948 in adjustments to fund equity, $3,729 in adjustments to revenue and $755,686 in adjustments to expenditures. These totals were calculated by comparing beginning balances to those reported in the audited financial statements.

Effect: Without performing monthly account reconciliations, information provided to management and the School Board is not accurate. Also, the probability that fraud or material errors will occur and go undetected greatly increases. When accounts have not been reviewed and reconciled during the year, the time and costs required at year-end to reconcile these accounts significantly increases.

Cause: The School District's accounting staff did not perform monthly reconciliations of key account balances.

Auditors' Recommendations: To promote timely reconciliations, the business manager should establish a realistic schedule for monthly account reconciliations which may include seeking external assistance in performing the reconciliations. In addition, we recommend that the School District contract with an accounting firm to assist in the audit preparation process.

Management Response: Many journal entries were made during the year due to new reporting standards from the state for Federal Programs. The coding has been changed and is in the process of being complete.

2. Audit Findings in Relation to Financial Statements - Continued

08-4 Bank Reconciliations

Criteria or Specific Requirement: All bank accounts should be reconciled on a monthly basis. Any differences should be investigated and corrected. All adjusting journal entries to properly reflect the cash balance should have superintendent and or Board approval.

Condition: The October 31, 2007, the December 31, 2007 and the June 30, 2008 bank reconciliations had balancing adjusting entries of $6,911, $3,098 and $4,159 respectively.

Context: We reviewed all manual journal entries for the fiscal year under audit and tested those that were specific to cash.

Effect: Total cash per books had to be reduced by $14,168 for the fiscal year ending June 30, 2008.

Cause: Differences between cash per bank and cash per books are corrected by a balancing adjusting journal entry without approval by the School District's superintendent and the School Board.

Auditors' Recommendations: We recommend that management perform reconciliations through the use of their system software. Reconciliations should be reviewed by another competent individual, discrepancies should be investigated and, if any adjustments are necessary they should be posted to the accounting records after approval of the superintendent and/or School Board. The School Board should determine an adjustment amount that requires the Board's approval.

Management Response: No entries will be made to balance the bank reconciliations without a discussion with the superintendent prior to making any adjustments. The superintendent will then sign off on the bank reconciliation for approval.

2. Audit Findings in Relation to Financial Statements - Continued

08-5 Cash Receipts

Criteria or Specific Requirement: The School District must follow the cash receipts policies and procedures as set forth by the South Dakota Legislative Audit Accounting Manual (Section III), which states "A pre-numbered, duplicate receipt should be written for all money received by the school district....".

Condition: The School District does not follow the South Dakota State Audit Accounting Manual procedures for cash collections. We were not provided evidence of source documents which would include pre-numbered receipt books, cash register Z tapes, or a cash receipts log.

Context: We tested internal controls over the collection of cash at the Lakota Nation Invitational training sponsored by the School District.

Effect: Cash could be misappropriated and the opportunity for fraud exists.

Cause: Personnel collecting cash are not required to follow proper procedures.

Auditors' Recommendations: We recommend that the School District review the requirements for receipts under Section III of the South Dakota Legislative Audit Accounting Manual and develop/modify existing policies and procedures to ensure that adequate controls are in place and accountability over collected revenue is present.

Management Response: Pre-numbered receipts are already in place and have been use for the past ten years the business manager has been employed. The pre-numbered receipts will continue to be used.

2. Audit Findings in Relation to Financial Statements - Continued

08-6 Capital Assets

Criteria or Specific Requirement: Capital asset records are to be maintained in accordance with section D of the School District's Policy Manual and Section III -- Accounting Records(Capital Assets) of the South Dakota Legislative Audit Accounting Manual, which states "...The responsibility of stewardship involved in safeguarding such a large investment is of the utmost importance to sound financial administration. The protective custody of these assets can only be accomplished through adequate accounting procedures and records. In addition to stewardship or protective custody of a governmental unit's property, a good system of capital asset accounting permits the fixation of responsibility for custody and proper use of specific capital assets on individual public officials." In addition, the School District must be in compliance with South Dakota Codified Law 5-24 which governs compliance over public personal property.

Condition: During our review and testing of the School District's capital assets we noted the following deficiencies:

- The School District is not conducting a yearly physical inventory of its capital assets as required by policy.
- Depreciation schedules are not updated monthly and reconciled to the general ledger.
- The School District is not utilizing the acceptable software package to manage its capital assets.
- The School District is not recording additions, deletions and depreciation expense in a timely manner.
- The School District is not conducting a review of capital assets to determine if any assets are impaired or obsolete.
- The School District is not performing an analysis of useful lives to determine that remaining lives are reasonable and carrying values are recoverable.
- The School District had to record over $500,000 in prior period adjustments to reconcile capital assets schedules to the general ledger.
- The School District is not in compliance with South Dakota Codified Law 5-24 statutes.

Context: We requested evidence of the reconciliation process between the physical inventories and general ledger. We also requested evidence that the School District had reviewed its capital asset listings for impaired or obsolete items. For the year ending June 30, 2008 the School District has over $24 million in capital assets with a carrying value of over $13 million.

Effect: The risk of asset misappropriation has significantly increased. The School is not in compliance with State statutes.

Cause: The School District does not have adequate policies and procedures to ensure that capital assets are accurately reflected in the property records and recorded in the general ledger.

2. Audit Findings in Relation to Financial Statements - Continued

08-6 Capital Assets-Continued

Auditors' Recommendations: The School District should perform an entity-wide physical inventory of its capital assets every year, as required by policy. Once completed, the listing must be reconciled to the general ledger control totals and the control totals adjusted to the balances supported by the physical inventory results. The School District should also implement procedures to ensure the proper recording of additions, deletions and depreciation at the end of each month. Furthermore, we recommend that the School District perform a review of individual assets to determine that the remaining useful lives are reasonable and the net carrying value is recoverable.

Management Response: With additional staffing, which will be in place July 1, 2009, a program and system will be implemented and managed under the supervision of the business manager. As well as having upgrades done with the software Unlimited Accounting System.

2. Audit Findings in Relation to Financial Statements - Continued

08-7 Expenditures - Transaction Testing

Criteria or Specific Requirement: According to the South Dakota Legislative Audit Accounting Manual, section V, page 1, "considerations for controls over expenditures include approved vouchers, proper signatures, proper segregation of duties and an established charge of accounts." The responsibility of compliance with all federal and grant specific requirements is placed upon the individual school. Additionally, the school is responsible for maintaining adequate records to provide the required expenditure information for the audit report. The purchasing procedures are outlined on page 34 of the school's Policy Manual. Accordingly, "all orders must include the name and address of the supplier, as well as the purchase price. If the exact price is unavailable, an estimate of the cost should be given." Principals and department heads are responsible for verifying requested items are necessary and within the approved budget.

Condition: Pursuant to our testing of 101 expenditures, the following items were noted:

- One expenditure was coded to an incorrect general ledger account.
- Fourteen expenditures totaling $179,822 did not have the required supporting documentation attached to the voucher package.
- Ten expenditures totaling $170,895 were not properly authorized.
- One contract was not provided for review.

Context: Expenditures for the year under audit were approximately $25.7 million, of which approximately $20 million was associated with federal programs. The total of the sample selected for testing was approximately $2.1 million, or 8%. We noted exceptions in 15 disbursements or (8.3%) of the sample selected for testing.

Effect: The School District may be disbursing monies for unauthorized or unallowable expenditures, and making purchases unnecessary for school operations.

Cause: The School District is not following adopted policies and procedures.

Auditors' Recommendations: We recommend that management of the School District review cash management policies and procedures with the appropriate staff to ensure adherence with the School District's policies and procedures.

Management Response: No vouchers or purchase order will be processed without the proper authorization and documentation as well as coding. If the vouchers or purchase orders are received without following the proper procedures they will be refused and returned to the party requesting payment.

2. Audit Findings in Relation to Financial Statements - Continued

08-8 Compensated Absences - Excess Hours

Criteria or Specific Requirement: Personal leave expenses must be accrued within the guidelines of the School District's policies and procedures which state that an employee can only have a maximum of ten days accrued.

Condition: We noted 9 of the 221 employees for the School District had accrued days in excess of the maximum ten days at the end of the fiscal year. The total excess accrued for the year ending June 30, 2008 was $7,287.

Context: We reviewed the reconciliation for all employees of the School District.

Effect: Compensated absences liability is in excess of the amount permitted by the School District's policies and procedures.

Cause: The School District is not following the policies and procedures regarding the permitted maximum amount allowed based on their policy.

Auditors' Recommendations: The School District should either amend the current leave policy to better suit the current practice or reduce the employee leave accrual carry-overs to the policy amount of ten days at year-end.

Management Response: This was an oversight on the payroll department's behalf and they have assured the business manager, payroll will have a reviewing process in place to make sure the error is not repeated.

2. Audit Findings in Relation to Financial Statements - Continued

08-9 Prior Period Adjustments

Criteria or Specific Requirement: The School District is required to establish and maintain internal control that operates effectively throughout a period, to provide reasonable assurance regarding the reliability of the School District's financial statements. In accordance with Statement on Auditing Standards Number 112, adjustments to beginning net assets/fund balance, or prior period adjustments, must be considered a material weakness when reporting on the entity's internal controls.

Condition: Pursuant to our review of adjustments, we noted adjustments to prior year ending net assets/fund balance as follows:

- $21,429 in the general fund,
- $528,053 in the long-term capital asset fund.
- $135,474 in the long-term debt fund.

The bulk of these adjustments were related to correcting beginning balances of balance sheet accounts.

Context: We reviewed the adjustments made to beginning net assets/fund balance.

Effect: The prior year's financial statements were misstated.

Cause: The School District's supporting schedules were not in agreement with general ledger balances and adjustments were not recorded timely.

Auditors' Recommendations: We recommend that the School District compare supporting schedules to general ledger balances on a monthly basis and record appropriate adjustments in the current year to avoid future prior period adjustments.

Management Response: Management provided no response to this finding.

2. Audit Findings in Relation to Financial Statements - Continued

08-10 2008 Financial Audit

Criteria or Specific Requirement: The School District followed South Dakota Codified Law ("SDCL") 4-11-7 and 4-11-11 guidelines for engaging an independent public accountant. Additionally, OMB Circular A-133 requires that single audits be submitted within nine months after the grantee's year end.

Condition: The following deficiencies were noted during the course of the School District's 2008 audit:

- The School District did not submit the required request for authorization from the State Auditor General prior to allowing our firm to begin field work on the 2008 audit.
- The School District is not retaining ten percent of progress payments as required by the State guidelines.
- The fiscal year 2008 audit report was not submitted by the extension due date.

Context: We received notification from the State of the School District's violations with SDCL 4-11-7. We also reviewed the audit report date to determine if it was submitted on time.

Effect: Federal and/or state funding could be jeopardized.

Cause: Management did not submit the requested form nor were they monitoring compliance with State regulations for engaging an independent public accountant. In addition, the School District accounts were not reconciled in a timely manner so that the audit could be conducted and submitted on time.

Auditors' Recommendations: We recommend that the School District obtain the required authorization from the State Auditor General's office. We also recommend that the School District take the necessary actions to ensure that future financial records are maintained on a current basis, reconciled timely and can be audited within the allotted time after year end.

Management Response: Management provided no response to this finding.

2. Audit Findings in Relation to Financial Statements - Continued

08-11 Corrective Action Plan

Criteria or Specific Requirement: At the completion of the audit, the auditee shall prepare a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan shall provide the name(s) of the contact person(s) responsible for the corrective action, the corrective action planned, and the anticipated completion date.

Condition: The Business Manager and Superintendent of the School District resigned their positions in June of 2009. As such, we were only able to obtained management's responses to the audit findings. No corrective action plan was ever submitted.

Context: We presented management of the School District and the School Board the audit findings during the June monthly meeting. At that time we indicated that we would need management's responses and corrective action plan before we could issued a draft of the financial and compliance audit.

Effect: The School District is not in compliance with governmental reporting requirements.

Cause: Resignation of existing management who were responsible for the submission of responses and corrective action plan.

Auditors' Recommendations: The School District has since hired a new Business Manager and Superintendent who will be responsible for providing responses and corrective action plans on future audits. As such, our recommendation has already been implemented.

SHANNON COUNTY SCHOOL DISTRICT 65-1

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

2. Audit Findings and Questioned Costs in Relation to Federal Awards

08-12 Allowable Costs/Cost Principles - Impact Aid

Federal program information:

Funding agency:	Department of Education
Title:	Impact Aid
CFDA number:	84.041
Award year and number:	2007 and 2008, 51-SD-2009-0504

Criteria or Specific Requirement: The school's Policy Manual states "All disbursements and payments made by the School District will be in check form and follow these internal control procedures: Checks will be compared monthly to the original voucher, with a copy of the check to be filed with the respective voucher; All checks will be pre-numbered; Payroll checks will be run through the check signer by the accounts payable clerk; accounts payable checks will be run through the check signer by the payroll clerk; thus providing control over checks disbursed." School districts are local governmental units and are therefore subject to OMB Circular A-87 "Cost Principles for State, Local and Indian Tribal Governments." which states "To be allowable under federal awards, costs must..."be authorized, be adequately documented, be reasonable and necessary...".

Condition: We noted the following exceptions in the fifty federal expenditures selected for testing for this major program.

- One was not charged to the correct general ledger account.
- Two were missing invoices or receipts to support charges.
- One was a purchase of alcohol which is not allowable under A-87 guidelines.

Context: We tested $1,426,934 from a total of approximately $6.6 million in federal expenditures. We noted exceptions totaling $18,244 or 1.3% of the sample tested. Of the exceptions noted, $5,653 were determined to be violations of section 8003(d) of OMB Circular A-87 that applies to the Special Education section of the Impact Aid Program. The remaining $12,591 was a general ledger miscoding which was subsequently corrected.

Questioned Costs: Known $5,653. Projected questioned costs of approximately $26,000.

Effect:The School District is at risk of disbursing monies for unauthorized and/or unallowable expenditures.

Cause:The School District is not following adopted policies and procedures.

Auditors' Recommendations: We recommend that management and the appropriate staff review the procurement policies and procedures to ensure adherence with the policies and procedures mandated by the school board, state of South Dakota, and the federal government.

Management Response: The School District will adhere to the bid requirements as provided by SDCL 5-18-3, Publication of advertisement for bids. Procurement policies and procedures will be adhered to and no voucher or purchase order will be processed without the proper documentation and authorization.

3. Audit Findings and Questioned Costs in Relation to Federal Awards - Continued

08-13 Allowable Costs/Cost Principles - Early Reading First

Federal program information:

Funding agency:	Department of Education
Title:	Early Reading First
CFDA number:	84.359
Award year and number:	2004, S359B040111

Criteria or Specific Requirement: The School District's Policy Manual states "All disbursements and payments made by the School District will be in check form and follow these internal control procedures: Checks will be compared monthly to the original voucher, with a copy of the check to be filed with the respective voucher; All checks will be pre-numbered; Payroll checks will be run through the check signer by the accounts payable clerk; accounts payable checks will be run through the check signer by the payroll clerk; thus providing control over checks disbursed." School districts are local governmental units and are therefore subject to OMB Circular A-87 "Cost Principles for State, Local and Indian Tribal Governments." which states "To be allowable under federal awards, costs must..."be authorized, be adequately documented, be reasonable and necessary...".

Condition: We noted the following exceptions in the eight federal expenditures selected for testing for this major program.

- Five were not supported with appropriate documentation.
- Four were missing proper authorization.

Context: We tested approximately $138,000 from a total of $739,536 in federal expenditures. We noted exceptions totaling approximately $112,000 or 81% of the sample tested. Of the exceptions noted $12,789 were determined to be violations of allowable cost/cost principles and the remaining exceptions were violations of the School District's policies and procedures.

Questioned Costs: Known $12,789. Projected questioned costs of approximately $68,000.

Effect: The School District is at risk of disbursing monies for unauthorized and/or unallowable expenditures.

Cause: The School District is not following adopted policies and procedures.

Auditors' Recommendations: We recommend that management and the appropriate staff review the procurement policies and procedures to ensure adherence with the policies and procedures mandated by the school board, state of South Dakota, and the federal government.

Management Response: The School District will adhere to the bid requirements as provided by SDCL5-18-3, Publication of advertisement for bids. Procurement policies and procedures will be adhered to and no voucher or purchase order will be processed without the proper documentation and authorization.

3. Audit Findings and Questioned Costs in Relation to Federal Awards - Continued

08-14 Allowable Costs/Cost Principles - Title I Grants

Federal program information:

Funding agency:	Department of Education
Title:	Title I Grants to Local Educational Agencies
CFDA number:	84.010
Award year:	2007 and 2008 School Year

Criteria or Specific Requirement: The School District's Policy Manual states "All disbursements and payments made by the School District will be in check form and follow these internal control procedures: Checks will be compared monthly to the original voucher, with a copy of the check to be filed with the respective voucher; All checks will be pre-numbered; Payroll checks will be run through the check signer by the accounts payable clerk; accounts payable checks will be run through the check signer by the payroll clerk; thus providing control over checks disbursed." School districts are local governmental units and are therefore subject to OMB Circular A-87 "Cost Principles for State, Local and Indian Tribal Governments." which states "To be allowable under federal awards, costs must..."be authorized, be adequately documented, be reasonable and necessary...".

Condition: We noted the following exceptions in the seventeen federal expenditures selected for testing for this major program.

- One was missing an invoice.
- Five were missing receipts.
- Four were not properly authorized.
- One was missing a contract.

Context: We tested approximately $212,600 from a total of $3,227,230 in federal expenditures. We noted exceptions totaling approximately $86,500 or 40% of the sample tested. Of the exceptions noted $8,937 were determined to be violations of allowable cost/cost principles and the remaining exceptions were violations of the School District's policies and procedures.

Questioned Costs: Known $8,937. Projected questioned costs of approximately $135,000.

Effect: The School District is at risk of disbursing monies for unauthorized and/or unallowable expenditures.

Cause: The School District is not following adopted policies and procedures.

Auditors' Recommendations: We recommend that management and the appropriate staff review the procurement policies and procedures to ensure adherence with the policies and procedures mandated by the school board, state of South Dakota, and the federal government.

Management Response: The School District will adhere to the bid requirements as provided by SDCL 5-18-3, Publication of advertisement for bids. Procurement policies and procedures will be adhered to and no voucher or purchase order will be processed without the proper documentation and authorization.

3. Audit Findings and Questioned Costs in Relation to Federal Awards - Continued

08-15 Procurement, Suspension and Debarment

Federal program information:

Funding agency:	U.S. Department of Education
Title:	Title I Part A and Special Education IDEA Part B
CFDA number:	84.010 and 84.027
Award year and number:	2007 and 2008 School Year

Criteria or Specific Requirement: South Dakota Legislative Audit Accounting Manual Section V and OMB Circular A -133.

Condition: The School District does not consistently maintain the required procurement documents for all expenditures.

Context: We tested ten contracts that qualifed for procurement treatment and noted exceptions in two.

Questioned Costs: N/A

Effect: The School District was not in compliance with the South Dakota Legislative Audit Accounting Manual and OMB Circular A-133.

Cause: The School District does not follow the South Dakota Legislative Audit Accounting Manual procedures for federal grant procurement.

Auditors' Recommendations: We recommend that the school district follow procurement policy as required by South Dakota Legislative Audit Accounting Manual and OMB Circular A-133.

Management Response: Procurement policies and procedures will be adhered to and no voucher or purchase order will be processed without the proper documentation and authorization.

3. Audit Findings and Questioned Costs in Relation to Federal Awards - Continued

08-16 Davis Bacon - Impact Aid

Federal program information:

Funding agency:	U.S. Department of Education
Title:	Impact Aid
CFDA number:	84.041
Award year and number:	2007 and 2008, 51-SD-2009-0504

Criteria or Specific Requirement: The Davis-Bacon Act requires laborers and mechanics employed by contractors or subcontractors that work on construction contracts in excess of $2,000 financed by federal assistance funds be paid at wages not less than those established by the Secretary of Labor as the prevailing regional rate. Administrative controls and accounting controls should exist to properly follow and document compliance.

Condition: Certified payroll documentation for the Red Shirt construction project, which exceeded $2,000, was not made available for audit inspection.

Context: We tested compliance with Davis-Bacon for construction projects paid with Impact Aid funds.

Questioned Costs: N/A

Effect: The program is not in compliance with the Davis-Bacon Act.

Cause: Management did not monitor wages and/or maintain records to ensure that contractors working with federally funded construction projects are paying the applicable Davis-Bacon wages.

Auditors' Recommendations: We recommend that the School District require all contractors on construction jobs funded by federal funds to submit certified payroll reports. Management must review and keep these reports to ensure they are in compliance with the Davis-Bacon Act.

Management Response: The Davis Bacon Act will be adhered to and will require all contractors to submit certified payroll reports that are required.

SHANNON COUNTY SCHOOL DISTRICT 65-1

Summary Schedule of Prior Year Audit Findings

June 30, 2008

The following summarizes the prior year audit findings and current year responses from management: Management did not submit a corrective action plan for current year.

Finding 07 - 1 Segregation of Duties - **Not Implemented**

See page 52 for management's response

Finding 07 - 2 Revenue and Expenditure Coding - **Not Implemented**

See page 58 for management's response

Finding 07 - 3 Risk Assessment Policy - **Not Implemented**

See page 49 for management's response

Finding 07 - 4 Bank Account Reconciliations - **Not Implemented**

See page 54 for management's response

Finding 07 - 5 Preparation of Financial Statements - **Not Implemented**

See page 49 for management's response

Finding 07 - 6 Internal Control Over Significant Accounts - **Not Implemented**

See page 52 for management's response

Finding 07 - 7 Budgeting Title I Capital Expenditures - **Implemented**

Finding 07 - 8 Depreciation of Fiber Optics and Data Cables - **Implemented**

Finding 07 - 9 Excess Educational Conference's Monies - **Not Implemented**

See page 55 for management's response

Finding 07 - 10 Audit Submission - **Not Implemented**

See page 61 for management's response