SPEARFISH SCHOOL DISTRICT NO. 40-2
SPEARFISH, SOUTH DAKOTA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS
JUNE 30, 2010

SPEARFISH SCHOOL DISTRICT NO. 40-2

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Ketel Thorstenson, LLP
Certified Public Accountants
810 Quincy Street
P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **SPEARFISH SCHOOL DISTRICT NO. 40-2** (the District), Lawrence County, South Dakota, as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. 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 District as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 14, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

The Management's Discussion and Analysis (MD&A), Budgetary Comparison Schedules, and Schedule of Funding Progress and Employer Contribution for Retiree Health Insurance Coverage on pages 3 through 11, and pages 41 through 48 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Ketel Thorstenson, LLP

KETEL THORSTENSON, LLP
Certified Public Accountants

February 14, 2011

SPEARFISH SCHOOL DISTRICT NO. 40-2

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010

This section of Spearfish School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2010. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net assets from governmental and business-type activities increased $1,808,433 primarily due to an increase in property tax revenue.
- The total cost of the District's programs decreased by less than one percent, which is primarily due to a decrease in capital outlay expenditures.
- The general fund reported a $3,567,734 current year fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

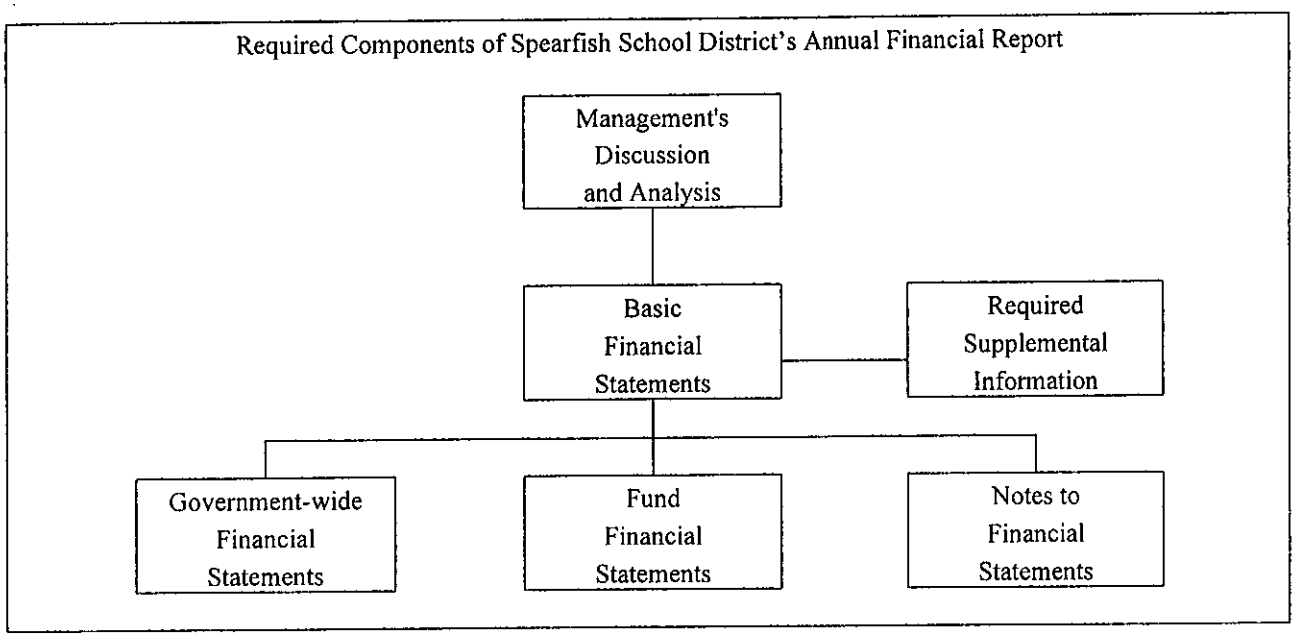
The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure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

SPEARFISH SCHOOL DISTRICT NO. 40-2

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-1



Government-wide Statements

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

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

- Increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and changes in the state school aid funding formula from the State of South Dakota.

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

- Governmental Activities - This category includes the District's basic instructional services (elementary, high school educational programs, etc.), support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.) and capital equipment purchases. Property taxes, state grants, federal grants and interest earnings finance most of these activities.

- Business-Type Activities - The District charges a fee to students to help cover the costs of providing lunch services to all students. The Food Service Fund is the only business-type activity of the District.

SPEARFISH SCHOOL DISTRICT NO. 40-2

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements

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

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

The District has three kinds of funds:

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's combined net assets increased as follows:

Table A-1

	Governmental Activities		Business-Type Activities		Total	
	2009	2010	2009	2010	2009	2010
Current and Other Assets	$ 14,616,176	**$ 23,551,788**	$ 146,782	**$ 164,110**	$14,762,958	**$ 23,715,898**
Capital Assets	20,137,424	**23,428,372**	42,534	**35,411**	20,179,958	**23,463,783**
Total Assets	$ 34,753,600	**$ 46,980,160**	$ 189,316	**$ 199,521**	$34,942,916	**$ 47,179,681**
Long-Term Liabilities	$ 5,589,153	**$ 15,512,416**	$ -	**$ -**	$ 5,589,153	**$ 15,512,416**
Other Liabilities	5,976,089	**6,481,158**	25	**25**	5,976,114	**6,481,183**
Total Liabilities	$ 11,565,242	**$ 21,993,574**	$ 25	**$ 25**	$11,565,267	**$ 21,993,599**
Net Assets:						
Invested in Capital Assets, Net of Related Debt	$ 15,072,424	**$ 15,995,280**	$ 42,534	**$ 35,411**	$15,114,958	**$ 16,030,691**
Restricted	4,682,871	**5,926,016**	146,757	**164,085**	4,829,628	**6,090,101**
Unrestricted	3,433,063	**3,065,290**	-	**-**	3,433,063	**3,065,290**
Total Net Assets	$ 23,188,358	**$ 24,986,586**	$ 189,291	**$ 199,496**	$23,377,649	**$ 25,186,082**
Beginning Net Assets	$ 21,955,362	**$ 23,188,358**	$ 188,342	**$ 189,291**	$22,143,704	**$ 23,377,649**
Change in Net Assets	1,232,996	**1,798,228**	949	**10,205**	1,233,945	**1,808,433**
Percentage of Change in Net Assets	5.62%	**7.75%**	0.50%	**5.39%**	5.57%	**7.74%**

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

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

Changes in Net Assets

This section illustrates condensed financial comparison of revenues and expenses and provides explanations for significant differences.

The District's revenues totaled $18,103,632 for the year ended June 30, 2010. (See Table A-2.) Approximately sixty percent of the District's revenue comes from property and other taxes, with another one-fifth coming from state aid. (See Figure A-3).

SPEARFISH SCHOOL DISTRICT NO. 40-2

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

The total cost of all programs and services was $16,295,199 for the year. The District's expenses cover a range of services, encompassing instruction, support services, and food services. (See Figure A-4)

Figure A-3: Revenue for Fiscal Year 2010

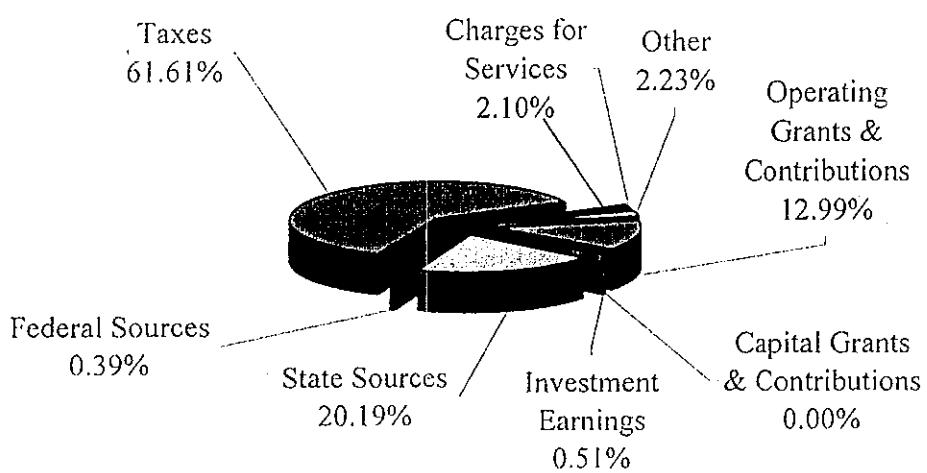
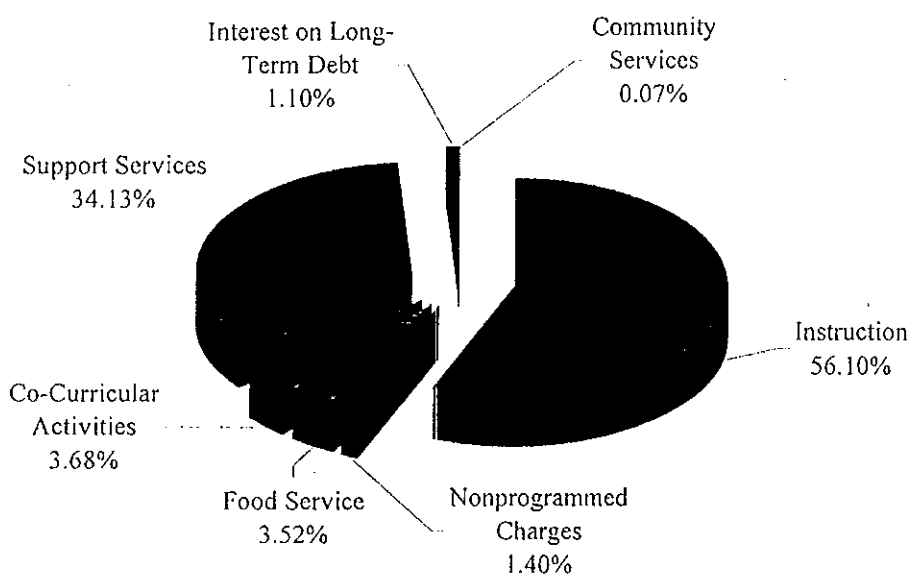


Figure A-4: Expenses for Fiscal Year 2010



SPEARFISH SCHOOL DISTRICT NO. 40-2

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

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

	Total Governmental Activities		Total Business-Type Activities		Grand Total	
	2009	2010	2009	2010	2009	2010
Revenues						
Program Revenues						
Charges for Services	$ 73,181	$ 72,138	$ 326,514	$ 307,152	$ 399,695	$ 379,290
Operating Grants and Contributions	1,710,573	2,082,692	273,010	269,741	1,983,583	2,352,433
Capital Grants and Contributions	20,262	510	-	-	20,262	510
General Revenues						
Taxes	10,698,522	11,147,756	-	-	10,698,522	11,147,756
Revenue State Sources	3,859,412	3,656,014	-	-	3,859,412	3,656,014
Revenue Federal Sources	79,001	71,144	-	-	79,001	71,144
Other General Revenues	402,133	399,235	-	5,017	402,133	404,252
Unrestricted Investment Earnings	134,817	90,525	498	1,708	135,315	92,233
Total Revenues	$ 16,977,901	$ 17,520,014	$ 600,022	$ 583,618	$ 17,577,923	$ 18,103,632
Expenses						
Instruction	$ 8,584,024	$ 9,143,052	$ -	$ -	$ 8,584,024	$ 9,143,052
Support Services	6,184,824	5,561,129	-	-	6,184,824	5,561,129
Community Services	8,047	11,507	-	-	8,047	11,507
Non-programmed Charges	160,926	227,925	-	-	160,926	227,925
Co-Curricular Activities	594,571	598,871	-	-	594,571	598,871
Interest on Long-Term Debt	212,513	179,302	-	-	212,513	179,302
Food Service	-	-	599,073	573,413	599,073	573,413
Total Expenses	$ 15,744,905	$ 15,721,786	$ 599,073	$ 573,413	$ 16,343,978	$ 16,295,199
Change in Net Assets	$ 1,232,996	$ 1,798,228	$ 949	$ 10,205	$ 1,233,945	$ 1,808,433
Ending Net Assets	$ 23,188,358	$ 24,986,586	$ 189,291	$ 199,496	$ 23,377,649	$ 25,186,082

Governmental Activities

While the District experienced normal individual revenue fluctuations during the 2010 year compared to 2009, the total revenues of the District's governmental activities increased by 3.19 percent due mainly to increases in assessed valuations. The decrease in expenditures of 0.10 percent was primarily due to reducing expenditures in the District's capital outlay fund in preparation for new debt service payments.

SPEARFISH SCHOOL DISTRICT NO. 40-2

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONCLUDED)

Business-Type Activities
Revenues of the District's business-type activities decreased 2.73 percent, and expenses decreased by 4.28 percent. The revenue fluctuation is due to slightly reduced participation. The expenditure decrease was due to a reduction in transportation costs to ship the food and milk products.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The General Fund decrease in fund balance of $308,219 was necessitated by the state's mandated fund balance limitation and the District's fund balance exemption expiring at fiscal year end. Revenues were aided by an assessed value increase. Capital Outlay, Special Education, and the Pension Funds showed increases in fund balances due to a rise in valuations. The Bond Redemption Fund decreased due to an attempt to match the last two debt service payments to taxes received through the mill levy.

BUDGETARY HIGHLIGHTS

The General Fund budget increased in 2010 from 2009 to reflect the influx of the federal government's stimulus money.

Net variances were due to an increase in assessed value and fluctuations in taxes.

CAPITAL ASSET ADMINISTRATION

By the end of 2010, the District had invested $23,463,783 (net of accumulated depreciation) in a broad range of capital assets, including land, buildings, and various machinery and equipment. (See Table A-3.) This amount represents a sixteen percent increase from last year, primarily due to the start of construction of a new elementary school building during fiscal year 2010.

Table A-3

	Capital Assets (Net of Depreciation)			
	Governmental Activities		Business-type Activities	
	2009	2010	2009	2010
Land	$ 146,305	$ 1,645,272	$ -	$ -
Buildings	18,808,112	18,566,059	-	-
Machinery and Equipment	1,183,007	1,232,205	42,534	35,411
Construction in Progress	-	1,984,836	-	-
Total Capital Assets (Net)	$ 20,137,424	$ 23,428,372	$ 42,534	$ 35,411

SPEARFISH SCHOOL DISTRICT NO. 40-2

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2010

LONG-TERM DEBT

Table A-4

Outstanding Debt and Obligations				
	2009	**2010**	Total Dollar Change	Total Percentage Change
General Obligation Certificates - 2007	$ 4,140,000	**$ 3,655,000**	$ (485,000)	-12%
General Obligation Bonds - 2005	925,000	**320,000**	(605,000)	-65%
General Obligation Bonds - 2010	-	**7,955,000**	7,955,000	100%
General Obligation Bonds - 2010	-	**1,500,000**	1,500,000	100%
General Obligation Bonds - 2010	-	**1,545,000**	1,545,000	100%
Early Retirement	300,999	**247,656**	(53,343)	-18%
Compensated Absences	167,779	**179,081**	11,302	7%
Net OPEB Obligation	55,375	**110,679**	55,304	100%
Total Outstanding Debt and Obligations	$ 5,589,153	**$ 15,512,416**	$ 9,923,263	178%

The District borrowed $11,000,000 for the construction of a new elementary school building. The District made annual payments on prior general obligation bonds.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's current economic position has shown change. The District experienced an increase in total property valuation of roughly $47,665,489 or 4.7% from the prior year. The increase in property valuation allows the District the ability to increase the amount of revenue generated from property taxes; however, the total amount which can be levied is limited by the State of South Dakota.

One of the primary sources of revenue to the District is based on a per student allocation from the State of South Dakota. The state aid formula for the current year ensures that property taxes plus state aid will equal $4,804.66 per pupil. Several factors impact the amount of state aid the district received. Due to the increase in assessed value, the increase in per student allocation and the enrollment decrease of 1 student, the District received an increase in state aid revenue of $267,496 from the State of South Dakota.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

STATEMENT OF NET ASSETS
JUNE 30, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	$ 17,087,389	$ 145,111	**$ 17,232,500**
Due from State Government (Note 4)	213,821	-	**213,821**
Taxes Receivable	5,473,562	-	**5,473,562**
Receivables (Note 3)	420,845	-	**420,845**
Inventories	-	18,999	**18,999**
Deferred Charges	152,651		**152,651**
Other Assets	203,520	-	**203,520**
Capital Assets (Note 6):			
Land	1,645,272	-	**1,645,272**
Buildings, Net of Depreciation	18,566,059	-	**18,566,059**
Equipment, Net of Depreciation	1,232,205	35,411	**1,267,616**
Construction in Progress	1,984,836		**1,984,836**
TOTAL ASSETS	$ 46,980,160	$ 199,521	**$ 47,179,681**
LIABILITIES			
Other Current Liabilities	$ 1,180,278	$ 25	**$ 1,180,303**
Deferred Revenue	5,300,880	-	**5,300,880**
Long-Term Liabilities (Note 7 and 10):			
Due Within One Year	1,627,312	-	**1,627,312**
Due in More than One Year	13,885,104	-	**13,885,104**
TOTAL LIABILITIES	21,993,574	25	**21,993,599**
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	15,995,280	35,411	**16,030,691**
Restricted for:			
Capital Outlay	4,421,620	-	**4,421,620**
Special Education	649,348	-	**649,348**
Pension Tax	734,597	-	**734,597**
Debt Service	120,451	-	**120,451**
Food Service	-	164,085	**164,085**
Unrestricted	3,065,290	-	**3,065,290**
TOTAL NET ASSETS	24,986,586	199,496	**25,186,082**
TOTAL LIABILITIES AND NET ASSETS	$ 46,980,160	$ 199,521	**$ 47,179,681**

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
					Primary Government		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**
Governmental Activities:							
Instruction	$ 9,143,052	$ 18,255	$ 2,082,692	$ -	$ (7,042,105)	$ -	$ (7,042,105)
Support Services	5,561,129	-	-	-	(5,561,129)	-	(5,561,129)
Community Services	11,507	-	-	-	(11,507)	-	(11,507)
Non-programmed Charges	227,925	-	-	-	(227,925)	-	(227,925)
Co-Curricular Activities	598,871	53,883	-	510	(544,478)	-	(544,478)
Interest on Long-Term Debt *	179,302	-	-	-	(179,302)	-	(179,302)
	15,721,786	72,138	2,082,692	510	(13,566,446)	-	(13,566,446)
Business-Type Activities:							
Food Service	573,413	307,152	269,741	-	-	3,480	3,480
Total Primary Government	$ 16,295,199	$ 379,290	$ 2,352,433	$ 510	(13,566,446)	3,480	(13,562,966)
General Revenues							
Taxes:							
Property Taxes					10,967,521	-	10,967,521
Gross Receipts Taxes					180,235	-	180,235
Revenue from State Sources:							
State Aid					3,656,014	-	3,656,014
Revenue from Federal Sources					71,144	-	71,144
Unrestricted Investment Earnings					90,525	1,708	92,233
Other General Revenues					399,235	5,017	404,252
Total General Revenues					15,364,674	6,725	15,371,399
Change in Net Assets					1,798,228	10,205	1,808,433
Net Assets -- June 30, 2009					23,188,358	189,291	23,377,649
Net Assets -- June 30, 2010					**$ 24,986,586**	**$ 199,496**	**$ 25,186,082**

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

The accompanying notes are an integral part of this statement.

Bond Redemption Fund	Capital Projects Fund	Total Governmental Funds
$ 115,092	$ 7,527,914	$ 17,087,389
173,157	-	5,426,193
1,566	-	47,369
-	-	7,295
-	-	413,550
-	-	213,821
-	-	203,520
$ 289,815	$ 7,527,914	$ 23,399,137
$ -	$ 138,657	$ 948,119
-	-	232,159
170,843	-	5,554,921
170,843	138,657	6,735,199
-	-	203,520
118,972	7,389,257	16,460,418
118,972	7,389,257	16,663,938
$ 289,815	$ 7,527,914	$ 23,399,137

SPEARFISH SCHOOL DISTRICT NO. 40-2

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO GOVERNMENT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2010

Total Fund Balances - Governmental Funds	$	16,663,938
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.		23,428,372
Long-term liabilities, including general obligation bonds, capital outlay certificates payable, accrued leave payable, and early retirement payable are not due in the current period and, therefore, are not reported in the funds.		(15,512,416)
Assets such as notes receivable are not available to pay for current period expenditures and therefore are deferred in the funds.		206,672
Bond costs are capitalized on the Statement of Activities as deferred charges and amortized over the life of the bonds. These costs were expended in the governmental funds.		152,651
Assets such as delinquent taxes receivable are not available to pay for current period expenditures and therefore are deferred in the funds.		47,369
Net Assets - Governmental Funds	**$**	**24,986,586**

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Tax Fund	Bond Redemption Fund	Capital Projects Fund	Total Governmental Funds
REVENUES							
Revenue from Local Sources:							
Taxes:							
Ad Valorem Taxes	$ 5,770,514	$ 3,014,641	$ 1,406,854	$ 301,501	$ 353,675	$ -	$ 10,847,185
Prior Years' Ad Valorem Taxes	82,217	30,824	14,394	3,083	4,216	-	134,734
Gross Receipts Taxes	180,235	-	-	-	-	-	180,235
Other Taxes	-	-	-	-	975	-	975
Penalties and Interest on Taxes	12,915	6,704	3,129	671	-	-	23,419
Tuition and Fees:							
Regular Day School Tuition	18,255	-	-	-	-	-	18,255
Earnings on Interest-Bearing Accounts:							
Interest Earned	22,773	33,084	5,084	828	1,071	27,685	90,525
Co-Curricular Activities:							
Admissions	43,158	-	-	-	-	-	43,158
Pupil Organization Memberships	10,725	-	-	-	-	-	10,725
Other Local Revenue:							
Rentals	16,715	-	-	-	-	-	16,715
Contributions and Donations	7,840	510	-	-	-	-	8,350
Other	33,412	57,670	-	-	-	-	91,082
Revenue from Intermediate Sources:							
County Sources:							
County Apportionment	291,438	-	-	-	-	-	291,438
Revenue from State Sources:							
Grants-in-Aid:							
Unrestricted Grants-in-Aid	3,656,014	-	275,600	-	-	-	3,931,614
Other State Revenue	-	40,995	-	-	-	-	40,995
Revenue from Federal Sources:							
Grants-in-Aid:							
Unrestricted Grants-in-Aid Received from Federal Government Through State	71,144	-	-	-	-	-	71,144
Restricted Grants-in-Aid Received from Federal Government Through State	1,060,699	-	697,558	-	-	-	1,758,257
Total Revenues	**11,278,054**	**3,184,428**	**2,402,619**	**306,083**	**359,937**	**27,685**	**17,558,806**

SPEARFISH SCHOOL DISTRICT NO. 40-2

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Tax Fund	Bond Redemption Fund	Capital Projects Fund	Total Governmental Funds
EXPENDITURES							
Instruction:							
Regular Programs:							
Elementary	2,571,902	98,332	-	-	-	-	2,670,234
Middle/Junior High School	1,693,415	33,952	-	-	-	-	1,727,367
High School	2,050,945	55,387	-	-	-	-	2,106,332
Class Size Reduction	124,376	-	-	-	-	-	124,376
Special Programs:							
Programs for Special Education	-	13,951	1,657,380	-	-	-	1,671,331
Culturally Different	24,668	-	-	-	-	-	24,668
Educationally Deprived	546,516	-	-	-	-	-	546,516
Support Services:							
Pupils:							
Attendance and Social Work	142,500	-	-	-	-	-	142,500
Guidance	400,041	-	-	-	-	-	400,041
Health Services	58,854	-	-	-	-	-	58,854
Psychological	-	-	91,109	-	-	-	91,109
Speech Pathology	-	-	171,476	-	-	-	171,476
Student Therapy Services	-	-	102,100	-	-	-	102,100
Instructional Staff:							
Improvement of Instruction	675	97,152	-	-	-	-	97,827
Educational Media	442,181	316,868	-	-	-	-	759,049
General Administration:							
Board of Education	186,449	-	-	-	-	-	186,449
Executive Administration	184,756	-	-	-	-	-	184,756
School Administration:							
Office of the Principal	739,519	-	-	-	-	-	739,519
Business:							
Fiscal Services	229,512	586,872	-	-	-	-	816,384
Facilities Acquisition and Construction	-	391,487	-	-	-	-	391,487
Operation and Maintenance of Plant	1,529,120	22,545	-	-	-	-	1,551,665
Pupil Transportation	215,185	-	-	-	-	-	215,185
Central:							
Direction of Central Support Services	25,101	-	-	-	-	-	25,101
Special Education:							
Administrative Costs	-	-	124,177	-	-	-	124,177
Transportation Costs	-	-	23,207	-	-	-	23,207
Other Special Education Costs	-	-	7,250	-	-	-	7,250

SPEARFISH SCHOOL DISTRICT NO. 40-2

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Tax Fund	Bond Redemption Fund	Capital Projects Fund	Total Governmental Funds
EXPENDITURES (Continued)							
Community Services:							
Other	11,507	-	-	-	-	-	11,507
Non-programmed Charges:							
Early Retirement	-	-	-	227,925	-	-	227,925
Debt Service:							
Principal (Note 7)	-	485,000	-	-	605,000	-	1,090,000
Interest	-	152,350	-	-	24,978	-	177,328
Fees	-	-	-	-	-	154,625	154,625
Co-Curricular Activities:							
Male Activities	180,792	-	-	-	-	-	180,792
Female Activities	152,795	-	-	-	-	-	152,795
Combined Activities	180,464	53,340	-	-	-	-	233,804
Capital Outlay	-	145,583	-	-	-	3,483,803	3,629,386
Total Expenditures	11,691,273	2,452,819	2,176,699	227,925	629,978	3,638,428	20,817,122
Excess of Revenue Over (Under) Expenditures	(413,219)	731,609	225,920	78,158	(270,041)	(3,610,743)	(3,258,316)
Other Financing Sources							
Transfer In (Note 11)	105,000	-	-	-	-	-	105,000
Transfers Out (Note 11)	-	-	(105,000)	-	-	-	(105,000)
General Long-Term Debt Issued (Note 7)	-	-	-	-	-	11,000,000	11,000,000
Sale of Capital Assets	-	368,328	-	-	-	-	368,328
Total Other Financing Sources	105,000	368,328	(105,000)	-	-	11,000,000	11,368,328
Net Change in Fund Balances	(308,219)	1,099,937	120,920	78,158	(270,041)	7,389,257	8,110,012
Fund Balance – June 30, 2009	3,875,953	3,108,052	525,168	655,740	389,013	-	8,553,926
Fund Balance – June 30, 2010	$ 3,567,734	$ 4,207,989	$ 646,088	$ 733,898	$ 118,972	$ 7,389,257	$ 16,663,938

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010

Net Change in Fund Balances - Total Governmental Funds	$ 8,110,012
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	3,290,948
In both the government-wide and fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the funds' statements differs from the accounting in the government-wide statements in that the fund financial statements require the amounts to be available. This amount reflects the application of both the application period and availability criteria.	(38,792)
The issuance of long-term debt is an other financing source in the fund statements but an increase in long-term liabilities on the government wide statements.	(11,000,000)
Governmental funds report notes receivable as revenue when measureable and available, but the Statement of Activities includes notes receivable as revenue when earned (Note 3).	206,672
Bond costs are capitalized on the Statement of Activities as deferred charges and amortized over the life of the refunded bonds. These costs were expensed in the governmental funds.	152,651
Governmental funds recognize expenditures for amounts of compensated absences and early retirement benefits actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the Statement of Activities, expenses for these benefits are recognized when the employees earn leave credits or elect to retire early.	42,041
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	1,090,000
Government-wide financial statements require other post employment benefits to be recorded on the accrual basis, whereas the fund statements require the modified accrual basis.	(55,304)
Change in Net Assets of Governmental Activities	**$ 1,798,228**

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

PROPRIETARY FUND BALANCE SHEET
JUNE 30, 2010

		Food Service Fund
ASSETS		
Current Assets:		
Cash	$	145,111
Inventory of Supplies		1,802
Inventory of Stores Purchased for Resale		6,257
Inventory of Donated Food		10,940
Total Current Assets		**164,110**
Noncurrent Assets:		
Capital Assets (Note 6):		
Machinery and Equipment		284,635
Less Accumulated Depreciation		(249,224)
Total Noncurrent Assets		**35,411**
TOTAL ASSETS	**$**	**199,521**
LIABILITIES		
Current Liabilities:		
Other Current Liabilities	$	25
NET ASSETS		
Invested in Capital Assets		35,411
Unrestricted Net Assets		164,085
Total Net Assets		**199,496**
TOTAL LIABILITIES AND NET ASSETS	**$**	**199,521**

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

PROPRIETARY FUND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

	Food Service Fund
Operating Revenue	
Sales:	
To Pupils	$ 276,191
To Adults	30,561
A La Carte	400
Total Operating Revenue	**307,152**
Operating Expenses	
Salaries	251,095
Employee Benefits	69,601
Purchased Services	6,333
Supplies	2,053
Cost of Sales - Purchased Food	210,779
Cost of Sales - Donated Food	25,614
Other	70
Depreciation - Local Funds	7,123
Other Equipment	745
Total Operating Expenses	**573,413**
Operating Loss	**(266,261)**
Nonoperating Revenue	
Local Sources:	
Interest Earnings	1,708
Other Local Revenue	5,017
Federal Sources:	
Cash Reimbursements	238,894
Donated Food	30,847
Total Nonoperating Revenue	**276,466**
Change in Net Assets	**10,205**
Net Assets -- June 30, 2009	189,291
Net Assets -- June 30, 2010	**$ 199,496**

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

PROPRIETARY FUND STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

		Food Service Fund
Cash Flows from Operating Activities:		
Receipts from Customers	$	307,152
Payments to Suppliers		(220,696)
Payments to Employees		(320,696)
Net Cash Flows Used in Operating Activities		**(234,240)**
Cash Flows Provided by Noncapital Financing Activities:		
Other Local Revenue		5,017
Federal Operating Subsidies		245,862
Net Cash Flows Provided by Noncapital Financing Activities		**250,879**
Cash Flows Provided by Investing Activities:		
Interest Earnings		**1,708**
Net Increase in Cash During the Fiscal Year		**18,347**
Cash -- June 30, 2009		126,764
Cash -- June 30, 2010	**$**	**145,111**
Reconciliation of Operating Loss to Net Cash Flows Used in Operating Activities		
Operating Loss	$	(266,261)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Cost of Sales - Donated Food		25,614
Depreciation Expense		7,123
Increase in Inventories		(716)
Net Cash Flows Used in Operating Activities	**$**	**(234,240)**
Noncash Investing, Capital and Financing Activities:		
Value of Commodities Received	$	30,847

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2010

	Private-Purpose Trust Fund	Agency Funds
ASSETS		
Cash	$ 102,848	$ 342,896
LIABILITIES		
Amounts Held for Others	-	$ 342,896
NET ASSETS		
Reserved for Scholarships	$ 102,848	

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

	Private-Purpose Trust Fund
ADDITIONS	
Donations	$ 2,543
DEDUCTIONS	
Scholarships Awarded	1,600
Change in Net Assets	943
Net Assets - June 30, 2009	101,905
Net Assets - June 30, 2010	$ 102,848

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(1) Summary of Significant Accounting Policies

a. Reporting Entity

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

The funds included in this report are controlled by or dependent upon the District's Board of Education. The District participates in a cooperative service unit with 11 other school districts. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are disclosed in these notes because of the nature of their relationship with the District. See Note 8 entitled "Joint Venture" for specific disclosures. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments.

b. Basis of Presentation

Government-wide Statements:

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

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

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements:

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

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

The funds of the financial reporting entity are described below:

Governmental Funds:

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

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

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

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

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

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

Bond Redemption Fund - A fund established by SDCL 13-16-13 to account for the proceeds of special property taxes restricted to use for the payment of principal and interest on general obligation bonded debt. This fund is the only debt service fund maintained by the District. This is a major fund.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements (Continued):

Capital Projects Fund – A fund was established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds for individuals, private organizations, or other governments). This fund is financed by debt proceeds. This is a major fund.

Proprietary Fund:

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

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

Fiduciary Funds:

Fiduciary Funds are never considered to be major funds.

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

Agency Funds - Agency Funds are used to account for resources held by the District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature, they do not involve the measurement of results of operations. The District maintains a variety of Agency Funds. Agency Funds are established to account for the monies earned by student organizations for various expenditures. Another Agency Fund accounts for the monies contributed by employees for health and dependent care expenses.

c. Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

Measurement Focus (Continued)

Fund Financial Statements:

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

Basis of Accounting:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

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

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

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

Enterprise funds and business-type activities do not apply FASB Statements and Interpretations issued after November 30, 1989.

d. Capital Assets

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

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

d. Capital Assets (Continued)

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.

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

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

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

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

Fund Financial Statements:

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

e. Long-Term Liabilities

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist of compensated absences and early retirement payable, other post-employment benefits, general obligation bonds, and general obligation certificates (see Note 7).

Compensated absences consist of annual vacation and sick leave earned. Annual leave is earned by full-time, 12-month employees at the rate of 10 to 20 days per year, depending upon years of service. Upon termination, employees are entitled to receive compensation for their current fiscal year accrual at their current rate of pay. Based on specific qualifications, any previous years' balances will also be compensated.

Sick leave is earned by the employees at a rate equal to the number of hours worked in a day times the number of months worked for all full-time 12-, 10-, and 9-month employees and part-time 12- and 10-month employees; the number of days accumulated is not limited. Upon termination, some employees are entitled to receive compensation for their accrued sick leave balance. Those with six years of service or more will receive compensation at the rate of $15.00 per day of accumulated leave.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

e. Long-Term Liabilities (Continued)

Full-time teachers and administrators may participate in an early retirement program. Upon meeting certain criteria and board approval, terminating eligible employees may receive cash benefits equal to their current salary times five percent times their years of service (maximum of 20 years). The benefit may be paid in one payment or multiple payments. A long-term liability is recognized for the total benefits payable in future periods for 10 employees who have applied and been approved for separation (see Note 7). No discount rate was used to estimate the effect of making the cash payments over a three year period, as it would be insignificant.

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

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

f. Program Revenues

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

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

g. 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, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

h. Inventory

Inventory of the Enterprise Fund and business-type activities is valued at the lower of cost or market value. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

Inventory in the Enterprise Fund and business-type activities consists of food and supplies held for consumption. Inventory is recorded at the time individual inventory items are purchased and expensed when used.

As of June 30, 2010, no significant amounts of supplies inventory were on hand for the governmental funds.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

i. Deposits and Investments

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

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

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

As of June 30, 2010, the District's cash and investments consisted only of checking, savings, and certificates of deposit. All of these accounts are insured or collateralized in the District's name.

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

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

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

Custodial Credit Risk:
The risk that, in the event of a depositary failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2010, none of the District's deposits were exposed to custodial credit risk.

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

j. Deferred Revenue

Under the modified accrual basis of accounting, receivables may be measurable but not available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. These consist primarily of property tax revenue (Note 2).

k. Cash and Cash Equivalents

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

l. 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.

m. Application of Net Assets

It is the 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.

(2) Property Taxes

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

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(3) Notes Receivable

The City of Spearfish purchased land from the District in July 2009 totaling $575,000. The remaining **$413,550** is due in equal annual installments of $206,775, with the last payment due in July 2011, bearing interest at 2.25 percent.

(4) Due from Other Governments

Amounts due from state governments include grant reimbursements due from the State of South Dakota in the amount of **$213,821**.

(5) Retirement Plan -- South Dakota Retirement System

The following summary description of participation in the South Dakota Retirement System (the System) is provided for general information purposes. Participants should refer to South Dakota Codified Law (SDCL) 3-12 and employee handbooks for more complete information.

All employees, working more than 20 hours per week during the school year, participate in the System, 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 System provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SDRS, PO Box 1098, Pierre, South Dakota 57501-1098 or by calling (605) 773-3731.

Covered employees (Class A Members) are required by state statute to contribute six percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the System for the fiscal years ended June 30, 2010, 2009, 2008 were **$539,411**, $502,917 and $494,240 respectively, equal to the required contributions each year.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(6) Changes in Capital Assets

Changes in capital assets used in governmental activities were as follows during the year ended June 30, 2010:

	Balance June 30, 2009	Additions	Transfers/ Retirements	**Balance June 30, 2010**
Governmental Activities				
Capital Assets, not Depreciated				
Land	$ 146,305	$ 1,498,967	$ -	**$ 1,645,272**
Construction in Progress	-	1,984,836	-	**1,984,836**
Capital Assets, Depreciated				
Buildings	23,675,151	-	-	**23,675,151**
Outdoor Equipment	65,385	-	-	**65,385**
Equipment -- Local Funds	2,226,381	145,583	(63,728)	**2,308,236**
	26,113,222	3,629,386	(63,728)	**29,678,880**
Less Accumulated Depreciation				
Buildings	4,867,039	242,053	-	**5,109,092**
Outdoor Equipment	34,436	3,269	-	**37,705**
Equipment -- Local Funds	1,074,323	93,116	(63,728)	**1,103,711**
	5,975,798	338,438	(63,728)	**6,250,508**
Governmental Activities Capital Assets, Net	$ 20,137,424	$ 3,290,948	$ -	**$ 23,428,372**

Depreciation expense was charged to functions within governmental activities as follows:

Instruction	$ 258,965
Support Services	47,993
Co-curricular Activities	31,480
Total Depreciation Expense	**$ 338,438**

Changes in capital assets used in business-type activities were as follows during the year ended June 30, 2010:

	Balance June 30, 2009	Additions	Transfers/ Retirements	**Balance June 30, 2010**
Business-Type Activities				
Machinery and Equipment	$ 284,635	$ -	$ -	**$ 284,635**
Less Accumulated Depreciation	(242,101)	(7,123)	-	**(249,224)**
Business -Type Activity Capital Assets, Net	$ 42,534	$ (7,123)	$ -	**$ 35,411**

As of June 30, 2010, there are approximately $7,015,735 of commitments associated with construction projects in progress. Completion of such projects will be funded through general obligation bonds.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(7) Long-Term Debt

The following is a summary of the changes in long-term liabilities during the year ended June 30, 2010:

	2007 General Obligation Certificates	2005 General Obligation Bonds	2010 General Obligation Bonds BAB	2010 General Obligation Bonds QSCB	2010 General Obligation Bonds QRZEDB
Governmental Activities					
June 30, 2009 Balance	$ 4,140,000	$ 925,000	$ -	$ -	$ -
Issued Amounts	-	-	7,955,000	1,500,000	1,545,000
Retired Amounts	(485,000)	(605,000)	-	-	-
Compensated Absences Earned	-	-	-	-	-
Compensated Absences Used	-	-	-	-	-
New Retirees Approved	-	-	-	-	-
Payments to Retirees	-	-	-	-	-
OPEB Additions	-	-	-	-	-
OPEB Reductions	-	-	-	-	-
June 30, 2010 Balance	**$ 3,655,000**	**$ 320,000**	**$ 7,955,000**	**$ 1,500,000**	**$ 1,545,000**
Due Within One Year	$ 505,000	$ 320,000	$ 395,000	$ -	$ 75,000

	Early Retirement Payable	Compensated Absences Payable	Net OPEB Obligation	Total
Governmental Activities				
June 30, 2009 Balance	$ 300,999	$ 167,779	$ 55,375	$ 5,589,153
Issued Amounts	-	-	-	11,000,000
Retired Amounts	-	-	-	(1,090,000)
Compensated Absences Earned	-	80,788	-	80,788
Compensated Absences Used	-	(69,486)	-	(69,486)
New Retirees Approved	163,080	-	-	163,080
Payments to Retirees	(216,423)	-	-	(216,423)
OPEB Additions	-	-	78,606	78,606
OPEB Reductions	-	-	(23,302)	(23,302)
June 30, 2010 Balance	**$ 247,656**	**$ 179,081**	**$ 110,679**	**$ 15,512,416**
Due Within One Year	$ 153,231	$ 179,081	$ -	$ 1,627,312

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(7) Long-Term Debt (Continued)

Long-term liabilities, other than compensated absences, early retirement payable, and net OPEB obligation (Note 10), are comprised of the following:

General Obligation Bonds:	
2005 General Obligation Refunding School Building Bonds; mature July 1, 2011; bearing interest at fixed rates from 2.80 to 3.25 percent; paid from the Debt Service Fund.	$ 320,000
2007 General Obligation Certificates; mature December 2016; bearing interest at fixed rates from 3.55 to 3.90 percent; paid from the Capital Outlay Fund.	3,655,000
2010 General Obligation Taxable Certificates (Build America Bonds - Direct Pay); mature December 2029; semi-annual payments; bearing interest at fixed rates from 0.90 to 6.00 percent; paid from the Capital Outlay Fund. The District will receive a credit from the Federal Government for 35 percent of the interest paid on the certificates.	7,955,000
2010 Limited Tax General Obligation Taxable Certificates (Qualified School Construction Bonds - Direct Pay); mature December 2026; semi-annual, interest-only payments with a balloon payment in December 2026; bearing interest at 5.50 percent; paid from the Capital Outlay Fund. The certificates require sinking fund deposits to generate a total balance of the principal due on maturity.	1,500,000
2010 Limited Tax General Obligation Taxable Certificates (Qualified Recovery Zone Economic Development Bonds); mature December 2029; semi-annual payments; bearing interest at 1.10 to 6.00 percent; paid from the Capital Outlay Fund. The District will receive a credit from the Federal Government for 45 percent of the interest paid on the certificates.	1,545,000
	$ 14,975,000

The annual requirements to amortize all debt outstanding as of June 30, 2010, excluding compensated absences and OPEB, are as follows:

Year Ending June 30,	General Obligation Principal	General Obligation Interest	Early Retirement	Totals
2011	$ 1,295,000	$ 709,238	$ 153,231	$ 2,157,469
2012	910,000	605,331	94,425	1,609,756
2013	935,000	579,458	-	1,514,458
2014	955,000	550,383	-	1,505,383
2015	985,000	518,480	-	1,503,480
2016-2020	3,060,000	2,146,936	-	5,206,936
2021-2025	2,440,000	1,588,780	-	4,028,780
2026-2030	4,395,000	568,450	-	4,963,450
	$ 14,975,000	$ 7,267,056	$ 247,656	$ 22,489,712

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(8) Joint Venture

The District participates in the Black Hills Special Services Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special educational services to the member school districts. During the year ended June 30, 2010, the District paid **$516,689** for services provided by the co-op.

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

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

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

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

Separate financial statements for this joint venture are available from Black Hills Special Services Cooperative. At June 30, 2010, this joint venture had total fund equity of $4,030,738 (unaudited) and long-term debt of $872,443 (unaudited).

(9) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2010, the District managed its risks as follows:

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

(9) Risk Management (Continued)

The agreement with the ASBSD-PLF provides that the above coverage 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 District carries a $5,000 deductible for the property damage coverage and commercial automobile coverage and $1,000 for the school leader's professional liability coverage.

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

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

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

Health Insurance
The District purchases health insurance for its employees from a commercial insurance carrier. The District pays for a portion of qualified employees' health insurance premiums as an employee benefit. The District elected, effective January 2010, to cover the difference between a $750/$1,250/$2,000 deductible selected by the employee and the commercial insurance carrier's deductible of $5,000. In addition, certain employees who elect not to participate in the District's health insurance plan receive a cash option. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(10) Other Post Employment Benefits (OPEB) Plan

Plan Description
The Spearfish School District Other Post Employment Benefits (OPEB) plan is a single-employer defined benefit healthcare plan administrated by the Spearfish School District. The Plan provides medical insurance benefits to eligible retirees and their spouses as permitted by SDCL 6-1-16. Benefit provisions were established and may be amended during the negotiated agreement process with the District certified staff and School Board. The health plan does not issue separately stated stand-alone financial statements.

Funding Policy
A teacher or administrator who retires from the District on or after the age of 55 and with at least five years of service with the District may be eligible for retiree health insurance coverage. Coverage ceases when the retiree attains the age of 65 or becomes eligible for Medicare except for COBRA continuation if elected. The retiree is responsible for 100 percent of the full active premium rates for either single or family coverage. SDCL 6-1-16 specifically allows any municipality, county or school district to provide health insurance for retiring employees and their immediate families.

Because the State prohibits local governments from separately rating active employees and retirees, the District charges both groups an equal, blended premium rate for single or family coverage. Although both groups are charged the same rate, GAAP requires the actuarial amounts to be calculated using age-adjusted premiums that approximate costs for retirees separately from those for active employees. The use of age-adjusted premiums results in the inclusion of an implicit rate subsidy of the benefit costs to retirees by the District.

Currently, there are 258 active participants and 6 retirees who are participating in the plan. Because the District does not use a trust fund to administer the financing of other postemployment benefits, no separate financial statements are required.

Annual OPEB Cost and Net OPEB Obligation
The District's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The District's annual OPEB cost, the percentage of annual OPEB costs contributed, and the net OPEB obligation for the year ended June 30, 2010, were as follows:

Annual Required Contribution	$ 79,367
Interest on Net OPEB Obligation	2,492
Adjustment to Annual Required Contribution	(3,253)
Annual OPEB Cost	78,606
Contributions Made	(23,302)
Change in Net OPEB Obligation	55,304
Net OPEB Obligation - Beginning of Year	55,375
Net OPEB Obligation - End of Year	$ 110,679
Percentage Contributed	29.64%

Funded Status and Funding Progress
As of July 1, 2008, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was $595,391. The annual payroll for active employees covered by the plan in the actuarial valuation for the 2008-2009 fiscal year was $5,904,362 for a ratio of the UAAL to covered payroll of 10.1 percent.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2010

(10) Other Post Employment Benefits (OPEB) Plan (Continued)

Funded Status and Funding Progress (Continued)
Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions
Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The projected unit credit actuarial cost method was used in the July 1, 2008 valuation. The actuarial assumptions included a 4.5 percent investment rate of return. The initial healthcare cost trend rate was 10 percent reduced by one percent each year to an ultimate rate of five percent. Both the rate of return and the healthcare cost trend rate include an assumed inflation rate of three percent. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years. The remaining amortization period at June 30, 2010 is 29 years.

(11) Individual Fund Interfund Transactions

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

Fund	Transfer From	Transfer To
Special Education Fund	$ 105,000	$ -
General Fund	-	105,000

The transfer was allowed as part of ARRA funding that allowed the District to transfer a portion of their funding from the Special Education Fund to the General Fund to cover salary and benefit expenditures.

REQUIRED SUPPLEMENTARY INFORMATION

SPEARFISH SCHOOL DISTRICT NO. 40-2

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	$ 5,677,929	$ 5,677,929	$ 5,770,514	$ 92,585
Prior Years' Ad Valorem Taxes	50,000	50,000	82,217	32,217
Gross Receipts Taxes	120,000	120,000	180,235	60,235
Penalties and Interest on Taxes	15,000	15,000	12,915	(2,085)
Tuition and Fees:				
Regular Day School Tuition	14,000	14,000	18,255	4,255
Summer Fee Tuition	2,000	2,000	-	(2,000)
Earnings on Interest-Bearing Accounts:				
Interest Earned	23,100	23,100	22,773	(327)
Co-Curricular Activities:				
Admissions	40,000	40,000	43,158	3,158
Pupil Organization Memberships	10,000	10,000	10,725	725
Rentals	1,000	1,000	-	(1,000)
Other Local Revenue:				
Rentals	15,000	15,000	16,715	1,715
Contributions and Donations	20,000	20,000	7,840	(12,160)
Other	32,000	32,000	33,412	1,412
Revenue from Intermediate Sources:				
County Sources:				
County Apportionment	300,000	300,000	291,438	(8,562)
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	3,984,018	3,984,018	3,656,014	(328,004)
Other State Revenue	5,000	5,000	-	(5,000)
Revenue from Federal Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid Received from Federal Government Through State	72,010	72,010	71,144	(866)
Restricted Grants-in-Aid Received from Federal Government Through State	820,624	820,624	1,060,699	240,075
Other Federal Revenue	5,000	5,000	-	(5,000)
Total Revenues	**11,206,681**	**11,206,681**	**11,278,054**	**71,373**
EXPENDITURES				
Instruction:				
Regular Programs:				
Elementary	2,746,941	2,746,941	2,571,902	175,039
Middle/Junior High School	1,740,115	1,740,115	1,693,415	46,700
High School	1,991,567	1,991,567	2,050,945	(59,378)
Class Size Reduction	169,622	170,047	124,376	45,671

SPEARFISH SCHOOL DISTRICT NO. 40-2

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

EXPENDITURES (Continued)	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
Instruction (Continued):				
Special Programs:				
Culturally Different	26,663	26,663	24,668	1,995
Educationally Deprived	529,611	552,677	546,516	6,161
Support Services:				
Pupils:				
Attendance and Social Work	134,731	137,810	142,500	(4,690)
Guidance	397,866	397,866	400,041	(2,175)
Health Services	53,587	53,587	58,854	(5,267)
Instructional Staff:				
Improvement of Instruction	-	-	675	(675)
Educational Media	476,050	479,405	442,181	37,224
General Administration:				
Board of Education	303,583	303,583	186,449	117,134
Executive Administration	186,806	186,806	184,756	2,050
School Administration:				
Office of the Principal	732,584	732,584	739,519	(6,935)
Business:				
Fiscal Services	228,731	228,731	229,512	(781)
Operation and Maintenance of Plant	1,386,482	1,386,482	1,529,120	(142,638)
Pupil Transportation	235,000	235,000	215,185	19,815
Internal Service	10,000	10,000	-	10,000
Central:				
Direction of Central Support Services	33,230	33,230	25,101	8,129
Community Services:				
Other	4,830	4,830	11,507	(6,677)
Co-Curricular Activities:				
Male Activities	168,150	168,150	180,792	(12,642)
Female Activities	170,827	170,827	152,795	18,032
Combined Activities	213,742	213,742	180,464	33,278
Total Expenditures	**11,940,718**	**11,970,643**	**11,691,273**	**279,370**
Excess of Revenue Over (Under) Expenditures	**(734,037)**	**(763,962)**	**(413,219)**	**350,743**
Other Financing Sources				
Transfer In	-	-	105,000	**105,000**
Net Change in Fund Balance	**(734,037)**	**(763,962)**	**(308,219)**	**455,743**
Fund Balance -- June 30, 2009	3,875,953	3,875,953	3,875,953	-
Fund Balance -- June 30, 2010	**$ 3,141,916**	**$ 3,111,991**	**$ 3,567,734**	**$ 455,743**

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL OUTLAY FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	$ 2,986,642	$ 2,986,642	$ 3,014,641	$ 27,999
Prior Years' Ad Valorem Taxes	16,000	16,000	30,824	14,824
Penalties and Interest on Taxes	3,000	3,000	6,704	3,704
Earnings on Interest-Bearing Accounts:				
Interest Earned	7,920	7,920	33,084	25,164
Other Local Revenue:				
Contributions and Donations	-	-	510	510
Other	-	-	57,670	57,670
Revenue from State Sources:				
Other State Revenue	-	-	40,995	40,995
Total Revenues	**3,013,562**	**3,013,562**	**3,184,428**	**170,866**
EXPENDITURES				
Instruction:				
Regular Programs:				
Elementary	73,800	73,800	103,552	(29,752)
Middle/Junior High School	49,000	49,000	33,952	15,048
High School	72,000	72,000	77,676	(5,676)
Special Programs:				
Programs for Special Education	16,000	16,000	13,951	2,049
Support Services:				
Instructional Staff:				
Improvement of Instruction	235,000	235,000	97,152	137,848
Educational Media	295,830	295,830	316,868	(21,038)
Business:				
Fiscal Services	13,100	13,100	586,872	(573,772)
Facilities Acquisition and Construction	395,475	395,475	475,413	(79,938)
Operation and Maintenance of Plant	28,200	28,200	56,693	(28,493)
Debt Service:				
Principal	1,125,900	1,125,900	485,000	640,900
Interest	343,038	343,038	152,350	190,688
Co-Curricular Activities:				
Combined Activities	66,250	66,250	53,340	12,910
Total Expenditures	**2,713,593**	**2,713,593**	**2,452,819**	**260,774**

SPEARFISH SCHOOL DISTRICT NO. 40-2

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL OUTLAY FUND (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
Net Change in Fund Balance	**299,969**	**299,969**	**731,609**	**431,640**
Other Financing Uses				
Sale of Capital Assets	175,000	175,000	368,328	193,328
Net Change in Fund Balance	**474,969**	**474,969**	**1,099,937**	**624,968**
Fund Balance -- June 30, 2009	3,108,052	3,108,052	3,108,052	-
Fund Balance -- June 30, 2010	**$ 3,583,021**	**$ 3,583,021**	**$ 4,207,989**	**$ 624,968**

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	$ 1,382,827	$ 1,382,827	$ 1,406,854	$ 24,027
Prior Years' Ad Valorem Taxes	7,500	7,500	14,394	6,894
Penalties and Interest on Taxes	1,500	1,500	3,129	1,629
Earnings on Interest-Bearing Accounts:				
Interest Earned	990	990	5,084	4,094
Revenue from State Sources:				
Grants -in-Aid:				
Unrestricted Grants-in-Aid	287,070	287,070	275,600	(11,470)
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through State	657,211	657,211	697,558	40,347
Total Revenues	**2,337,098**	**2,337,098**	**2,402,619**	**65,521**
EXPENDITURES				
Instruction:				
Special Programs:				
Programs for Special Education	1,737,248	1,737,248	1,657,380	79,868
Support Services:				
Pupils:				
Psychological	125,379	125,379	91,109	34,270
Speech Pathology	192,370	192,370	171,476	20,894
Student Therapy Services	88,500	88,500	102,100	(13,600)
Special Education:				
Administrative Costs	127,586	127,586	124,177	3,409
Transportation Costs	21,400	21,400	23,207	(1,807)
Other Special Education Costs	8,040	8,040	7,250	790
Total Expenditures	**2,300,523**	**2,300,523**	**2,176,699**	**123,824**
Excess of Revenue Over Expenditures	**36,575**	**36,575**	**225,920**	**189,345**
Other Financing Uses				
Transfer Out	-	-	(105,000)	**(105,000)**
Net Change in Fund Balance	**36,575**	**36,575**	**120,920**	**84,345**
Fund Balance -- June 30, 2009	525,168	525,168	525,168	-
Fund Balance -- June 30, 2010	**$ 561,743**	**$ 561,743**	**$ 646,088**	**$ 84,345**

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
PENSION TAX FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	$ 298,664	$ 298,664	$ 301,501	$ 2,837
Prior Years' Ad Valorem Taxes	1,400	1,400	3,083	1,683
Penalties and Interest on Taxes	-	-	671	671
Earnings on Interest-Bearing Accounts:				
Interest Earned	1,000	1,000	828	(172)
Total Revenues	**301,064**	**301,064**	**306,083**	**5,019**
EXPENDITURES				
Non-programmed Charges:				
Early Retirement	242,295	242,295	227,925	14,370
Total Expenditures	**242,295**	**242,295**	**227,925**	**14,370**
Net Change in Fund Balance	**58,769**	**58,769**	**78,158**	**19,389**
Fund Balance -- June 30, 2009	655,740	655,740	655,740	-
Fund Balance -- June 30, 2010	**$ 714,509**	**$ 714,509**	**$ 733,898**	**$ 19,389**

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS FOR RETIREE HEALTH INSURANCE COVERAGE
FOR THE YEAR ENDED JUNE 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actual Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/2008	$ -	$ 595,391	$ 595,391	0%	$ 5,904,362	10.1%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
6/30/2010	$ 78,606	29.64%
6/30/2009	79,367	29.36%

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010

(1) Basis of Presentation

The Budgetary Comparison Schedule has been prepared on the budgetary 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 Balances presents capital outlay expenditures as a separate function.

(2) Budgetary Legal Requirements

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

1. Prior to the first regular board meeting in May of each year, the School Board prepares a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.

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

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

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

5. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.

6. After adoption by the School Board, the operating budget is legally binding at the fund level and actual expenditures of each fund cannot exceed the amounts budgeted for that fund, except as indicated in number 8.

7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total District budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year.

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

9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board. The District does not employ encumbrance accounting as an extension of formal budgetary integration.

10. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, debt service funds, capital projects funds, and food service fund. Generally accepted accounting principles prescribe that budgetary information be presented for the general fund and major special revenue funds of the District only.

SINGLE AUDIT SECTION

SPEARFISH SCHOOL DISTRICT NO. 40-2

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2010

Status of Prior Audit Findings and Recommendations:

Finding #07-2
The District made every attempt to record all year-end adjusting entries in reference to Finding #07-2. The finding is repeated in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan.

Finding #07-3
The District prepared the Schedule of Expenditures of Federal Awards (SEFA) in fiscal year 2010 and has corrected the SEFA portion of Finding #07-3. The District has accepted the risk associated with Finding #07-3 regarding the preparation of the financial statements. The financial statement portion of the finding is repeated in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan.

Finding #07-4
The District implemented the corrective action plan regarding the segregation of duties surrounding Food Service receipts during fiscal year 2009; this finding has been resolved.

SPEARFISH SCHOOL DISTRICT NO. 40-2

SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN
JUNE 30, 2010

A. SUMMARY OF AUDIT RESULTS

1. The independent auditor's report expresses an unqualified opinion on the financial statements of Spearfish School District No. 40-2 (the District).

2. Significant deficiencies disclosed during the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards. One deficiency is reported as a material weakness.

3. No instances of noncompliance material to the District's financial statements were disclosed during the audit.

4. Significant deficiencies disclosed during the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133. No deficiencies are reported as material weaknesses.

5. The auditor's report on compliance for the major federal award programs expresses an unqualified opinion.

6. The audit findings related to the major federal award programs are reported in Part C of this schedule.

7. The programs tested as major programs (or cluster) were:
   a. Special Education Cluster (CFDA #84.027, 84.173, 84.391, and 84.392)
   c. Title I Programs Cluster (CFDA #84.010 and 84.389)

8. The threshold for distinguishing type A and B programs was $300,000.

9. The District was not determined to be a low-risk auditee.

B. FINDINGS -- FINANCIAL STATEMENT AUDIT

Significant Deficiency – Material Weakness in Internal Control

07-3 FINDING: Financial Statement Preparation:

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

Criteria and Effect: It is our responsibility to inform the School Board that this deficiency could result in a material misstatement to the financial statements that would have not been prevented or detected by the District's management.

Questioned Costs: None

SPEARFISH SCHOOL DISTRICT NO. 40-2

SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN (CONTINUED)
JUNE 30, 2010

B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONTINUED)

Significant Deficiency – Material Weakness in Internal Control (Continued)

07-3 FINDING: Financial Statement Preparation (Continued):

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

Response/Corrective Action Plan: The District will evaluate the risk associated with this condition. Craig Crosswait, Business Manager, is responsible for the corrective action plan for this finding.

Significant Deficiency – Not Considered a Material Weakness in Internal Control

07-2 FINDING: Internal Control over Significant Accounts:

Condition: During the course of our engagement, we proposed audit adjustments. Adjustments included adjusting deferred revenue, recording a retainage payable, adjusting grants receivable, reclassifying expenditure accounts, and adjusting capital assets. In addition, other entries were proposed as part of the audit, but were not recorded due to their overall insignificance to the financial statements.

Criteria and Effect: These adjustments were not identified as a result of the District's existing internal controls, and therefore, could have resulted in a misstatement of the District's financial statements.

Questioned Costs: None

Recommendation: We recommend changes in operations be continually reviewed for potential changes in accounting, so that the appropriate entries can be made throughout the year.

Response/Corrective Action Plan: The District will more thoroughly review end of the year adjustments to reflect the necessary changes. Craig Crosswait, Business Manager, is responsible for the corrective action plan for this finding.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Significant Deficiencies – Not Considered Material Weaknesses in Internal Control

10-1 FINDING: Semi-Annual Payroll Certifications

Condition: In both major programs tested, the District did not have semi-annual certifications performed for several employees who had all of their time allocated to a program, certifying that the employee had worked solely in that program. For Title I program (CFDA #84.010 and 84.389), three East Elementary teachers did not have certifications. For the Special Education program (CFDA #84.027, 84.173, 84.391, and 84.392), the Special Education Director did not have a certification.

SPEARFISH SCHOOL DISTRICT NO. 40-2

SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN (CONCLUDED)
JUNE 30, 2010

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

Significant Deficiencies – Not Considered Material Weaknesses in Internal Control (Continued)

10-1 FINDING: Semi-Annual Payroll Certifications (Continued)

Criteria and Effect: Office of Management and Budget Circular A-87 requires that employees, who are allocated 100 percent to a single federal award or cost objective, support charges for salaries and wages by periodic certification stating the employee worked solely on that program for the period covered by the certification. A lack of proper payroll documentation could result in questioned costs in regards to allowable costs/cost principles.

Questioned Costs: None

Recommendation: We recommend that the semi-annual certifications described above be prepared and signed by the employee or a supervisory official having first-hand knowledge of the work performed by the employee. Additionally, all time cards should indicate which federal program or department the employee is working for. The grants director or business manager should review all semi-annual certifications in January and June each year to ensure that all employees charged to federal grants have semi-annual certifications.

Response/Corrective Action Plan: The District will better coordinate the certification process to ensure total compliance. Craig Crosswait, Business Manager, is responsible for the corrective action plan for this finding.

10-2 FINDING: Highly Qualified Individuals – Title I Program

Condition: Three of the 25 individuals tested during payroll testing of the Title I program were not highly qualified.

Criteria and Effect: The No Child Left Behind Act requires paraprofessionals charged to the Title I program meet the requirement to be highly qualified. This is a special test and provision of Title I.

Questioned Costs: None

Recommendation: We recommend that the District review teachers and paraprofessionals to be charged to the Title I program to ensure that each employee meets the highly-qualified requirements. The grants director or business manager should review supporting documentation in June each year to ensure that all employees charged to Title I are highly qualified.

Response/Corrective Action Plan: The District will more thoroughly review coding of teachers and paraprofessionals to ensure only qualified individuals are included in the Title I program. Craig Crosswait, Business Manager, is responsible for the corrective action plan for this finding.

SPEARFISH SCHOOL DISTRICT NO. 40-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

	CFDA Numbers	Amount
U.S. Department of Agriculture:		
Pass-Through the S.D. Department of Education:		
Child Nutrition Cluster:		
Non-Cash Assistance (Commodities):		
National School Lunch Program (Note 4)	10.555	$ 25,614
Cash Assistance:		
School Breakfast Program (Notes 2 and 4)	10.553	33,097
National School Lunch Program (Notes 2 and 4)	10.555	190,716
Special Milk Program for Children (Notes 2 and 4)	10.556	4,087
Pass-Through Lawrence County:		
School and Roads -- Grants to States (National Forest -- SDCL 41-16-14)	10.665	71,130
Total U.S. Department of Agriculture		324,644
U.S. Department of the Interior:		
Pass-Through the S.D. Department of Education:		
National Mineral Leasing (Note 1)	15.227	14
U.S. Department of Education:		
Pass-Through the S.D. Department of Education:		
Title I Programs -- Local Educational Agencies (Notes 3 and 6)	84.010	383,780
ARRA Title I (Notes 3 and 6)	84.389	162,737
Special Education -- State Grants (P.L. 99-94-142) (Notes 3 and 5)	84.027	419,858
Special Education -- Preschool Grants (P.L. 99-457) (Notes 3 and 5)	84.173	18,282
ARRA IDEA 611 Part B (Notes 3 and 5)	84.391	162,911
ARRA IDEA 619 PS (Notes 3 and 5)	84.392	10,311
Safe and Drug-Free Schools & Communities -- State Grants (Title IV)	84.186	11,243
Educational Technology State Grants (Title II Part D)	84.318	5,535
English Language Acquisition Grants (Title III Part A)	84.365	762
Improving Teacher Quality State Grants (Title II Part A)	84.367	121,393
Special Eduation - Grants for Infants and Families with Disabilities (IDEA Part C)	84.181	2,317
ARRA SFSF - State Fiscal Stabilization Fund - Education State Grant	84.394	264,734
Career and Technical Education	84.048	23,172
Total U.S. Department of Education		1,587,035
Total		**$ 1,911,693**

SPEARFISH SCHOOL DISTRICT NO. 40-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

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

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

Note 3: This program was tested as a major program.

Note 4: These programs make up the Child Nutrition Cluster.

Note 5: These programs make up the Special Education Cluster.

Note 6: These programs make up the Title I Cluster.

Note 7: The schedule of expenditures of federal awards is presented on the accrual basis of accounting.

OTHER REPORTS

Ketel Thorstenson, LLP
Certified Public Accountants
810 Quincy Street
P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **SPEARFISH SCHOOL DISTRICT NO. 40-2** (the District), Spearfish, South Dakota as of and for the year ended June 30, 2010, and have issued our report thereon dated February 14, 2011. 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 District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal controls exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as Finding #07-3 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as Finding #07-2 to be a significant deficiency.

Compliance and Other Matters

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

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Department of Education, the South Dakota Legislature, the governing board and management of the District, and is not intended to be, and should not be, used by anyone other than those specified parties. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Ketel Thorstenson, LLP

KETEL THORSTENSON, LLP
Certified Public Accountants

February 14, 2011

Ketel Thorstenson, LLP
Certified Public Accountants
810 Quincy Street
P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of **SPEARFISH SCHOOL DISTRICT NO. 40-2** (the District), Spearfish, South Dakota, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the 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 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 on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on each major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan Part C as Findings #10-1 and #10-2. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Department of Education, the South Dakota Legislature, the governing board and management of the District, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than those specified parties. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

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February 14, 2011