

ARLINGTON SCHOOL DISTRICT NO. 38-1

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

JUNE 30, 2014

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

To the School Board
Arlington School District No. 38-1
Arlington, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Arlington School District No. 38-1 ("District"), as of June 30, 2014 and for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 23, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of current audit findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

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 and contracts, 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and is described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2014-02.

School District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of current audit findings. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Vilhauer Raul 3 Snyder P.C.

Watertown, South Dakota
October 23, 2014

ARLINGTON SCHOOL DISTRICT NO. 38-1
SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2014

Prior Audit Findings

1996-01

A material weakness was reported for a lack of segregation of duties for the revenue, expenditure and payroll functions. This comment is restated as a material weakness in the current other audit findings as 2014-01.

ARLINGTON SCHOOL DISTRICT NO. 38-1
SCHEDULE OF CURRENT AUDIT FINDINGS
June 30, 2014

Current Audit Findings

Internal Control Related Findings - Material Weakness

Finding # 2014-01

Condition Found: A material weakness was reported for a lack of segregation of duties for the revenue, expenditure and payroll functions. This finding has been noted since fiscal year ended June 30, 1996.

Cause: This comment is a result of the size of the District, which precludes staffing at a level sufficient to provide an ideal environment for internal controls.

Effect: The possible asserted effect of this condition is the misappropriation of assets.

Recommendation: We recommend management continue to monitor its delegation of duties and segregate sensitive functions as much as possible.

Corrective Action Plan: Brian Sampson, Business Manager, is the contact person responsible for the corrective action plan for this comment. The District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties. The District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties continues to exist.

Compliance and Other Matters

Finding # 2014-02

Condition and Criteria: The District over-expended the budget for the Capital Outlay Fund for the year ended June 30, 2014. According to SDCL 13-11-2, districts are not allowed to exceed the budgeted appropriations of each fund for the fiscal year.

Cause: Despite having revenues in excess of budgeted amounts due to the proceeds from a computer lease agreement entered into in fiscal year 2014, the District did not adequately budget for the increase in expenditures in the Capital Outlay Fund.

Effect: The District is not in compliance with state statute.

Recommendation: We recommend the District evaluate compliance with the budget prior to year end and make any amendments as considered necessary.

Corrective Action Plan: The governing board plans to monitor these expenditures to prevent future overdrafts and make amendments as considered necessary.

INDEPENDENT AUDITOR'S REPORT

To the School Board
Arlington School District No. 38-1
Arlington, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Arlington School District No. 38-1 ("District"), as of June 30, 2014, and for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 7 through 13, the Budgetary Comparison Schedules on pages 39 through 43 and the Schedule of Funding Progress for Post Employment Benefits on page 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The School District Officials on page 45 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vilhauer Raul & Snyder P.C.

Watertown, South Dakota
October 23, 2014

**ARLINGTON SCHOOL DISTRICT NO. 38-1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2014**

This section of the Arlington School District No. 38-1's annual financial report presents our discussion and analysis of the school's financial performance during the fiscal year ended on June 30, 2014. Please read it in conjunction with the school's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During FY14, \$89,453 (\$60,000 in principal, \$400 in fees, and \$29,053 in interest) was paid on the capital outlay certificates out of the Capital Outlay Fund and \$292,655 (\$235,000 in principal, \$300 in fees, and \$57,355 in interest) was paid on the general obligation bonds out of the Bond Redemption Fund for the new high school.
- The Arlington School District entered into a 4-year laptop lease program for the amount of \$157,282. During FY14, \$41,730 (\$41,605 in principal and \$125 in fees) was paid towards this lease.

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 school:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the school's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the school government, reporting the school's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
- Proprietary fund statements offer short and long-term financial information about the activities that the school operates like businesses. The proprietary funds operated by the school are the Food Service Operation and the Other Enterprise Fund.
- Fiduciary fund statements provide information about the financial relationships – like class and club accounts – in which the school 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 summarizes the major features of the school's financial statements, including the portion of the school government covered and the types of information contained. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

**ARLINGTON SCHOOL DISTRICT NO. 38-1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2014**

Figure A-1

Major Features of Arlington School's Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School government (except fiduciary funds)	The activities of the School that are not proprietary or fiduciary, such as elementary and high school education programs	Activities the School operates as private businesses, such as the food service operation	Instances in which the school is the trustee or agent for someone else's resources
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues Expenditures and Changes In Fund Balances	*Balance Sheet *Statement of Revenues Expenses and Changes in Net Position *Statement of Cash Flows	*Statement of Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter No capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long 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 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 year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the school as a whole using accounting methods similar to those used by private-sector companies.

The statement of net position includes all of the government'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 school's net position and how it has changed. Net position – the difference between the school's assets and liabilities – is one way to measure the school's financial health or position.

- Increases or decreases in the school's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the school you need to consider additional nonfinancial factors such as changes in the school'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 school are reported in two categories:

- **Governmental Activities** – This category includes the school's basic instructional services, such as elementary and high school educational programs, 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 school charges a fee to students to help cover the costs of providing hot lunch services to all students. The school also charges a tuition fee for preschool and drivers education to help cover the cost of these two programs. The Food Service Fund and the Other Enterprise Fund are the only business-type activities of the school.

**ARLINGTON SCHOOL DISTRICT NO. 38-1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2014**

Fund Financial Statements

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

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

The school has three kinds of funds:

- **Governmental Funds** – Most of the school's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the school'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 school 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 Enterprise Fund and the Other Enterprise Fund are the only proprietary funds maintained by the school.
- **Fiduciary Funds** – The school is the trustee, or fiduciary, for various external and internal parties. The school is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the school's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the school's government-wide financial statements because the school cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

The school's combined net position increased as follows:

Table A-1
ARLINGTON SCHOOL DISTRICT NO. 38-1
Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14
Current and Other Assets	\$ 3,316,631	\$3,551,495	\$ 11,446	\$5,135	\$ 3,328,077	\$ 3,556,630
Capital Assets	5,572,991	5,511,134	688	479	5,573,679	5,511,613
Total Assets	\$ 8,889,622	\$ 9,062,629	\$ 12,134	\$ 5,614	\$ 8,901,756	\$ 9,068,243
Other Liabilities	\$ 1,333,551	\$1,435,353	\$178	\$135	\$ 1,333,729	\$ 1,435,488
Long-Term Debt Outstanding	3,202,221	3,017,536	8,185	6,282	3,210,406	3,023,818
Total Liabilities	4,535,772	4,452,889	8,363	6,417	4,544,135	4,459,306
Net Position:						
Net Investment in Capital Assets	2,477,991	2,711,134	688	479	2,478,679	2,711,613
Restricted	774,976	912,452	-	-	774,976	912,452
Unrestricted	1,100,883	986,154	3,083	(1,282)	1,103,966	984,872
Total Net Position	4,353,850	4,609,740	3,771	(803)	4,357,621	4,608,937
Total Liabilities and Net Position	\$ 8,889,622	\$ 9,062,629	\$ 12,134	\$ 5,614	\$ 8,901,756	\$ 9,068,243

**ARLINGTON SCHOOL DISTRICT NO. 38-1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2014**

	Governmental Activities		Business-Type Activities		Total	
	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14
Beginning Net Position	4,038,379	4,353,850	10,286	3,771	4,048,665	4,357,621
Increase (Decrease) in Net Position	315,471	255,890	(6,515)	(4,574)	308,956	251,316
Percentage of Increase (Decrease) in Net Position	8%	6%	(63%)	(121%)	8%	6%

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

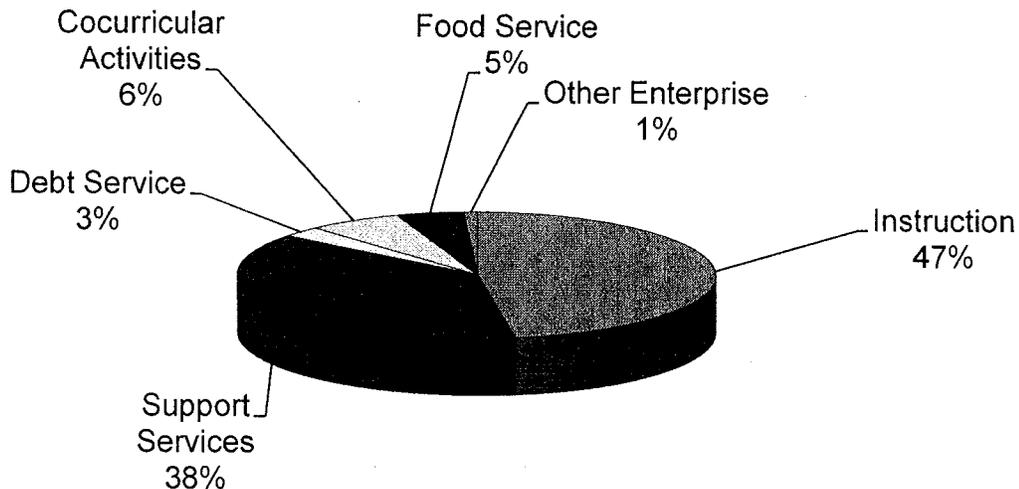
Changes in Net Position

This section will show condensed financial comparison of revenues and expenses and provide explanations for significant differences.

The school’s total revenues for governmental activities (excluding special items) totaled \$3,319,245. (See Table A-2) Approximately 71 percent of the school’s revenue comes from property and other taxes, with another 24 percent coming from state sources. (See Figure A-3)

The following diagrams show the percentages of expenses and revenues for the various functions of governmental activities. The school’s expenses cover a range of services, encompassing instruction, support services, cocurricular activities, debt service, food services, and other enterprise. (See Figure A-2)

Figure A-2 Arlington School Functional Expenses for Fiscal Year 2014



ARLINGTON SCHOOL DISTRICT NO. 38-1
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 JUNE 30, 2014

Figure A-3 Arlington School, Sources of Revenue for Fiscal Year 2014

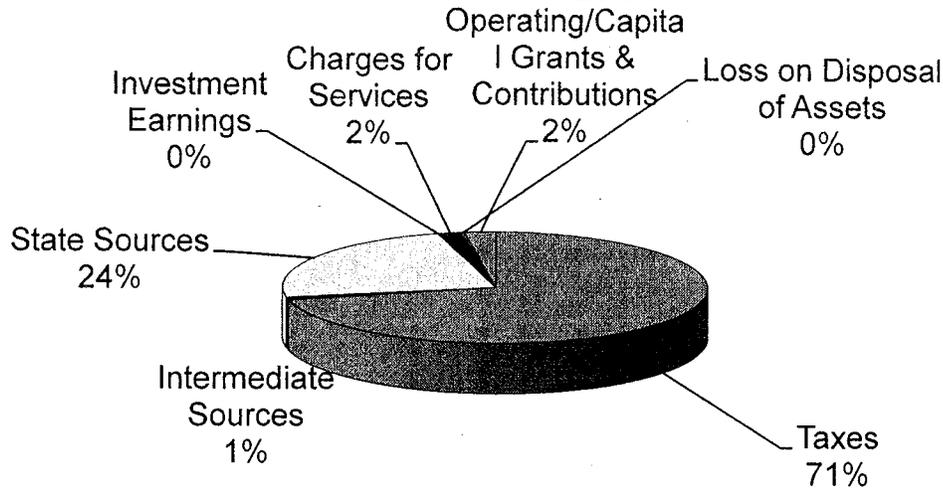


Table A-2 and the narrative that follows considers the operations of the governmental activities.

**Table A-2
 Changes in Net Position**

	Total Governmental Activities		Total Business-Type Activities		Total	
	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14
Revenues						
Program Revenues						
Charges for Services	\$ 52,009	\$ 50,745	\$ 98,990	\$ 97,163	\$ 150,999	\$ 147,908
Operating Grants & Contributions	50,281	49,693	72,384	71,492	122,665	121,185
Capital Grants & Contributions	25,690	31,607	-	-	25,690	31,607
General Revenues						
Taxes	2,337,737	2,373,049	-	-	2,337,737	2,373,049
Revenue State Sources	819,452	792,014	-	-	819,452	792,014
Revenue Intermediate Sources	26,003	29,037	-	-	26,003	29,037
Unrestricted Investment Earnings	6,554	5,242	11	6	6,565	5,248
Loss on Disposal of Assets	-	(8,477)	-	-	-	(8,477)
Transfers in (out)	(1,744)	(3,665)	1,744	3,665	-	-
Total Revenues	3,315,982	3,319,245	173,129	172,326	3,489,111	3,491,571
Expenses						
Instruction	1,442,881	1,537,799	-	-	1,442,881	1,537,799
Support Services	1,174,501	1,230,520	-	-	1,174,501	1,230,520
Debt Service	160,273	87,233	-	-	160,273	87,233
Cocurricular Activities	222,856	207,803	-	-	222,856	207,803
Food Service/Other Enterprise	-	-	179,644	176,900	179,644	176,900
Total Expenses	3,000,511	3,063,355	179,644	176,900	3,180,155	3,240,255

**ARLINGTON SCHOOL DISTRICT NO. 38-1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2014**

Increase (Decrease) in Net Position	315,471	255,890	(6,515)	(4,574)	308,956	251,316
Net position, beginning	4,038,379	4,353,850	10,286	3,771	4,048,665	4,357,621
Net position, ending	\$ 4,353,850	\$ 4,609,740	\$ 3,771	\$ (803)	\$ 4,357,621	\$ 4,608,937

BUSINESS-TYPE ACTIVITIES

Revenues of the school's business-type activities decreased from \$173,129 to \$172,326 in FY14. Expenses decreased from \$179,644 to \$176,900 in FY14. These amounts remained relatively stable due to the District's budgeting practices.

THE FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Total governmental activities revenues increased \$3,263 for the year ended June 30, 2014. The overall increase was due in part to increases in capital grants and contributions, taxes, and intermediate revenue sources in the total amount of \$44,263. These increases were offset by decreases in charges for services, operating grants and contributions, state sources, unrestricted investment earnings, loss on disposal of assets, and transfers out in the amount of \$41,000.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Arlington School Board revised the school budget to supplement appropriations and contingency transfers approved for unanticipated revenues and expenses to provide for items necessary for the education program of the district.

The actual revenue exceeded the original budgeted revenues by \$80,950. The actual expenditures were \$272,677 less than the final budgeted expenses due to conservative spending by the school district.

CAPITAL ASSET ADMINISTRATION

During the year ending June 30, 2014, the school had decreased its capital assets by \$62,066. (See Table A-3) There were purchases of equipment made during this fiscal year. The value of those purchases was partially offset by accumulated depreciation. A summary of changes in capital assets follows:

Table A-3
Arlington School District No. 38-1 – Capital Assets
(Net of depreciation)

	Governmental Activities		Business-Type Activities	
	2013	2014	2013	2014
Land	\$ 37,133	\$ 37,133	\$ -	\$ -
Construction in Progress	-	84,856	-	-
Buildings and Improvements	6,959,613	6,959,613	-	-
Equipment	946,656	855,470	30,528	30,528
Less Accumulated Depreciation	(2,370,411)	(2,425,938)	(29,840)	(30,049)
Total Capital Assets (Net)	\$ 5,572,991	\$ 5,511,134	\$ 688	\$ 479

**ARLINGTON SCHOOL DISTRICT NO. 38-1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2014**

LONG-TERM DEBT

A summary of changes in long-term debt follows:

Table A-4

	General Obligation Bonds	Capital Outlay Certificates	Computer Lease Payable	Compensated Absences	Early Retirement	Total
Balance, July 1, 2013	\$2,305,000	\$790,000	\$ -	\$ 35,826	\$ 30,879	\$3,161,705
New issuances	-	-	157,282	-	-	157,282
Earned compensated absences	-	-	-	26,563	-	26,563
Repayments and used absences	(235,000)	(60,000)	(41,605)	(26,587)	(15,440)	(378,632)
Balance, June 30, 2014	\$2,070,000	\$730,000	\$ 115,677	\$ 35,802	\$ 15,439	\$2,966,918

See a detailed description of the long-term debt in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The school's current economic position has shown some change. The school did experience an increase in total property valuation of \$27,573,453 from 2013 to 2014. Tax levies have remained constant.

One of the primary sources of revenue to the school is based on a per student allocation received from the State of South Dakota. The state aid formula for the current year ensured that property taxes plus state aid would equal \$4,625.65 per pupil increased from \$4,490.92 per pupil in FY13. The district has had a decrease in enrollment between 2013 and 2014. The district kept the opt out for FY14 at \$245,000 and will plan to keep the opt out for FY15 at \$245,000. The district kept the Capital Outlay tax levy to 2.15 and plans to maintain a 2.15 levy for the upcoming year still making payments from its Capital Outlay Fund for the purchase of property insurance and casualty insurance, for payments for energy costs and the cost of utilities, and for motor fuel according to SDCL 13-16-6.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the school's finances and to demonstrate the school's accountability for the money it receives. If you have questions about this report or need additional information, contact the Arlington School District Business Office, 306 South Main, Arlington, SD 57212.

ARLINGTON SCHOOL DISTRICT NO. 38-1

STATEMENT OF NET POSITION

June 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,139,821	\$ 1,363	\$ 2,141,184
Certificates of deposit	243,352	-	243,352
Taxes receivable	1,094,710	-	1,094,710
Accounts receivable, net	170	-	170
Accrued interest	227	-	227
Prepaid insurance	4,160	1,317	5,477
Internal balances	6,000	(6,000)	-
Due from other governments	63,055	-	63,055
Inventories	-	8,455	8,455
Capital assets:			
Land	37,133	-	37,133
Buildings and improvements	6,959,613	-	6,959,613
Equipment	855,470	30,528	885,998
Construction in progress	84,856	-	84,856
Less accumulated depreciation	(2,425,938)	(30,049)	(2,455,987)
Total capital assets, net of depreciation	5,511,134	479	5,511,613
TOTAL ASSETS	\$ 9,062,629	\$ 5,614	\$ 9,068,243
LIABILITIES			
Accounts payable	\$ 66,200	\$ 135	\$ 66,335
Contracts and benefits payable	169,289	-	169,289
Long-term liabilities:			
Due within one year	403,335	6,282	409,617
Due in more than one year	2,614,201	-	2,614,201
TOTAL LIABILITIES	3,253,025	6,417	3,259,442
DEFERRED INFLOWS OF RESOURCES			
Property taxes levied for future period	1,199,864	-	1,199,864
TOTAL DEFERRED INFLOWS OF RESOURCES	1,199,864	-	1,199,864
NET POSITION			
Net investment in capital assets	2,711,134	479	2,711,613
Restricted for:			
Capital outlay	408,692	-	408,692
Special education	330,483	-	330,483
Debt service	64,568	-	64,568
Pension	108,709	-	108,709
Unrestricted	986,154	(1,282)	984,872
TOTAL NET POSITION	\$ 4,609,740	\$ (803)	\$ 4,608,937

The accompanying notes are an integral part of this statement.

ARLINGTON SCHOOL DISTRICT NO. 38-1

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
GOVERNMENTAL ACTIVITIES							
Instruction	\$ 1,537,799	\$ -	\$ 49,693	\$ -	\$ (1,488,106)	\$ -	\$ (1,488,106)
Support services	1,230,520	20,240	-	31,607	(1,178,673)	-	(1,178,673)
Cocurricular activities	207,803	30,505	-	-	(177,298)	-	(177,298)
Interest on long-term debt *	87,233	-	-	-	(87,233)	-	(87,233)
Total governmental activities	3,063,355	50,745	49,693	31,607	(2,931,310)	-	(2,931,310)
BUSINESS-TYPE ACTIVITIES							
Food service	147,159	86,678	55,901	-	-	(4,580)	(4,580)
Preschool	25,253	7,485	15,591	-	-	(2,177)	(2,177)
Drivers education	4,488	3,000	-	-	-	(1,488)	(1,488)
Total business-type activities	176,900	97,163	71,492	-	-	(8,245)	(8,245)
Total primary government	\$ 3,240,255	\$ 147,908	\$ 121,185	\$ 31,607	(2,931,310)	(8,245)	(2,939,555)
GENERAL REVENUES							
Taxes:							
Property taxes					2,292,419	-	2,292,419
Gross receipts taxes					80,630	-	80,630
Revenue from state sources:							
State aid					792,014	-	792,014
Revenue from intermediate sources					29,037	-	29,037
Investment earnings					5,242	6	5,248
Loss on disposal of assets					(8,477)	-	(8,477)
Transfers in (out)					(3,665)	3,665	-
Total General Revenues and Transfers					3,187,200	3,671	3,190,871
CHANGE IN NET POSITION							
					255,890	(4,574)	251,316
Net position, beginning					4,353,850	3,771	4,357,621
NET POSITION, ENDING					\$ 4,609,740	\$ (803)	\$ 4,608,937

* 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.

ARLINGTON SCHOOL DISTRICT NO. 38-1

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2014

	General Fund	Capital Outlay Fund	Special Education Fund	Bond Redemption Fund	Pension Fund	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 1,271,619	\$ 397,974	\$ 344,048	\$ 38,990	\$ 87,190	\$ 2,139,821
Certificates of deposit	143,007	53,291	-	25,553	21,501	243,352
Taxes receivable, current	505,685	238,554	172,203	130,925	33,189	1,080,556
Taxes receivable, delinquent	8,123	2,506	1,592	1,588	345	14,154
Accounts receivable, net	170	-	-	-	-	170
Due from other funds	6,000	-	-	-	-	6,000
Prepaid expenses	4,160	-	-	-	-	4,160
Accrued interest	138	46	-	25	18	227
Due from other governments	61,855	1,200	-	-	-	63,055
TOTAL ASSETS	\$ 2,000,757	\$ 693,571	\$ 517,843	\$ 197,081	\$ 142,243	\$ 3,551,495
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 22,381	\$ 43,819	\$ -	\$ -	\$ -	\$ 66,200
Contracts payable	126,311	-	12,180	-	-	138,491
Benefits payable	29,413	-	1,385	-	-	30,798
Total Liabilities	178,105	43,819	13,565	-	-	235,489
Deferred Inflows of Resources:						
Unavailable revenue - property taxes	513,808	241,060	173,795	132,513	33,534	1,094,710
Total Deferred Inflows of Resources	513,808	241,060	173,795	132,513	33,534	1,094,710
Fund Balances:						
Nonspendable	4,160	-	-	-	-	4,160
Restricted	-	408,692	330,483	64,568	108,709	912,452
Assigned	398,264	-	-	-	-	398,264
Unassigned	906,420	-	-	-	-	906,420
Total Fund Balances	1,308,844	408,692	330,483	64,568	108,709	2,221,296
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 2,000,757	\$ 693,571	\$ 517,843	\$ 197,081	\$ 142,243	\$ 3,551,495

The accompanying notes are an integral part of this statement.

ARLINGTON SCHOOL DISTRICT NO. 38-1

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET POSITION
June 30, 2014

Total fund balances - governmental funds \$ 2,221,296

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds. The cost of the assets is \$7,937,072 and the accumulated depreciation is \$2,425,938. 5,511,134

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	(2,070,000)
Capital outlay certificates	(730,000)
Computer lease payable	(115,677)
Early retirement payable	(15,439)
Compensated absences	(29,520)
Other post employment benefits	(56,900)

Assets, such as taxes receivable that are not available to pay for current period expenditures, are deferred in the funds. (105,154)

NET POSITION - GOVERNMENTAL ACTIVITIES \$ 4,609,740

The accompanying notes are an integral part of this statement.

ARLINGTON SCHOOL DISTRICT NO. 38-1

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General Fund	Capital Outlay Fund	Special Education Fund	Bond Redemption Fund	Pension Fund	Total Governmental Funds
REVENUES						
Revenue From Local Sources:						
Taxes:						
Ad valorem taxes	\$ 1,069,000	\$ 517,673	\$ 351,768	\$ 293,915	\$ 70,743	\$ 2,303,099
Prior years' ad valorem taxes	6,531	2,584	1,550	1,589	332	12,586
Gross receipts taxes	80,630	-	-	-	-	80,630
Penalties and interest on taxes	2,800	920	571	565	121	4,977
Cocurricular activities	25,590	-	-	-	-	25,590
Other pupil activity income	4,915	-	-	-	-	4,915
Rentals	797	-	-	-	-	797
Earnings on investments and deposits	3,103	1,037	652	190	260	5,242
Other local revenue	19,443	1,180	4,279	-	-	24,902
Total Revenue From Local Sources	1,212,809	523,394	358,820	296,259	71,456	2,462,738
Revenue From Intermediate Sources:						
County apportionment	15,816	-	-	-	-	15,816
Revenue in lieu of taxes	13,221	-	-	-	-	13,221
Total Revenue From Intermediate Sources	29,037	-	-	-	-	29,037
Revenue From State Sources:						
Grants-in-aid:						
Unrestricted grants-in-aid	790,599	-	-	-	-	790,599
Other state revenue	1,415	-	-	-	-	1,415
Total Revenue From State Sources	792,014	-	-	-	-	792,014
Revenue From Federal Sources:						
Grants-in-aid:						
Unrestricted grants-in-aid	45,414	30,427	-	-	-	75,841
Total Revenue From Federal Sources	45,414	30,427	-	-	-	75,841
Total Revenue	2,079,274	553,821	358,820	296,259	71,456	3,359,630
EXPENDITURES						
Instructional Services:						
Regular programs:						
Elementary	461,515	10,910	-	-	9,879	482,304
Middle school	95,845	10,268	-	-	1,991	108,104
High school	409,386	185,713	-	-	8,759	603,858
Special programs:						
Programs for mild to moderate disabilities	-	-	257,870	-	-	257,870
Early childhood program	-	-	3,594	-	-	3,594
Educationally deprived	51,273	-	-	-	-	51,273
Total Instructional Services	1,018,019	206,891	261,464	-	20,629	1,507,003

The accompanying notes are an integral part of this statement.

ARLINGTON SCHOOL DISTRICT NO. 38-1

STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)
 For the Year Ended June 30, 2014

	General Fund	Capital Outlay Fund	Special Education Fund	Bond Redemption Fund	Pension Fund	Total Governmental Funds
Support Services:						
Pupils:						
Guidance	42,377	-	-	-	966	43,343
Psychological services	-	-	6,797	-	-	6,797
Transition coordinator	-	-	357	-	-	357
Speech, pathology and audiology	-	-	14,095	-	-	14,095
Student therapy services	-	-	10,836	-	-	10,836
Instructional staff:						
Improvement of instruction	7,499	-	-	-	90	7,589
Educational media	117,922	1,540	-	-	2,151	121,613
General administration:						
Board of education	51,512	-	-	-	-	51,512
Executive administration	131,573	1,130	-	-	3,611	136,314
School administration:						
Office of the principal	121,984	-	-	-	2,320	124,304
Other	581	-	-	-	-	581
Business:						
Fiscal services	115,621	2,899	-	-	2,047	120,567
Operation and maintenance of plant	209,765	147,760	-	-	2,946	360,471
Pupil transportation	60,541	27,000	-	-	426	87,967
Central:						
Other support services	-	-	753	-	-	753
Food services	23,973	-	-	-	4,516	28,489
Other	-	-	-	-	93	93
Total Support Services	883,348	180,329	32,838	-	19,166	1,115,681
Nonprogrammed Charges:						
Early retirement payments	-	-	-	-	16,621	16,621
Total Nonprogrammed Charges	-	-	-	-	16,621	16,621
Cocurricular Activities:						
Male activities	44,346	-	-	-	531	44,877
Female activities	37,759	6,424	-	-	598	44,781
Transportation	7,947	-	-	-	90	8,037
Combined activities	60,361	-	-	-	836	61,197
Total Cocurricular Activities	150,413	6,424	-	-	2,055	158,892
Debt Services	-	131,183	-	292,655	-	423,838
Capital Outlays	-	129,907	-	-	-	129,907
Total Expenditures	2,051,780	654,734	294,302	292,655	58,471	3,351,942
Excess of Revenue Over (Under) Expenditures	27,494	(100,913)	64,518	3,604	12,985	7,688
Other Financing Sources:						
Computer lease proceeds	-	157,282	-	-	-	157,282
Transfer out	(3,665)	-	-	-	-	(3,665)
Total Other Financing Sources	(3,665)	157,282	-	-	-	153,617
Net Change in Fund Balances	23,829	56,369	64,518	3,604	12,985	161,305
Fund balance, beginning	1,285,015	352,323	265,965	60,964	95,724	2,059,991
FUND BALANCE, ENDING	\$ 1,308,844	\$ 408,692	\$ 330,483	\$ 64,568	\$ 108,709	\$ 2,221,296

The accompanying notes are an integral part of this statement.

ARLINGTON SCHOOL DISTRICT NO. 38-1

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014**

Net change in fund balances - total governmental funds	\$	161,305
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		(53,380)
Loss on disposal of assets		(8,477)
The fund financial statement governmental fund property tax accruals differ from the government-wide statement property tax accruals in that the fund financial statements require the amounts to be "available."		(28,243)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		336,605
Issuance of new debt		(157,282)
Governmental funds do not reflect the change in accrued leave, but the statement of activities reflects the change in accrued leave through expenditures.		(1,879)
Governmental funds do not reflect the change in early retirement payable, but the statement of activities reflects the change in early retirement through expenditures.		15,440
Governmental funds do not reflect the change in other post employment benefits ("OPEB"), but the statement of activities reflects the change in OPEB through expenditures.		(8,199)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	255,890

The accompanying notes are an integral part of this statement.

ARLINGTON SCHOOL DISTRICT NO. 38-1

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2014

	Food Service Fund	Other Enterprise Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,363	\$ -	\$ 1,363
Prepaid insurance	1,317	-	1,317
Inventory of food, supplies and commodities	8,455	-	8,455
Total Current Assets	11,135	-	11,135
Noncurrent assets:			
Machinery and equipment	30,528	-	30,528
Less accumulated depreciation	(30,049)	-	(30,049)
Total Noncurrent Assets	479	-	479
TOTAL ASSETS	\$ 11,614	\$ -	\$ 11,614
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 135	\$ -	\$ 135
Due to other fund	6,000	-	6,000
Long-term liabilities:			
Accrued sick leave and vacation	6,282	-	6,282
Total Liabilities	12,417	-	12,417
NET POSITION			
Net investment in capital assets	479	-	479
Unrestricted net position	(1,282)	-	(1,282)
Total Net Position	(803)	-	(803)
TOTAL LIABILITIES AND NET POSITION	\$ 11,614	\$ -	\$ 11,614

The accompanying notes are an integral part of this statement.

ARLINGTON SCHOOL DISTRICT NO. 38-1

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET
POSITION - PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	Food Service Fund	Other Enterprise Fund	Total
OPERATING REVENUE			
Food sales:			
Student	\$ 75,246	\$ -	\$ 75,246
Adult	5,794	-	5,794
Other charges for goods and services	5,638	10,485	16,123
Total Operating Revenue	86,678	10,485	97,163
OPERATING EXPENSES			
Salaries	77,260	21,662	98,922
Employee benefits	7,127	5,815	12,942
Purchased services	744	807	1,551
Supplies	2,274	957	3,231
Cost of sales - purchased goods	48,839	-	48,839
Cost of sales - donated food	10,281	-	10,281
Miscellaneous	425	500	925
Depreciation	209	-	209
Total Operating Expenses	147,159	29,741	176,900
Operating Loss	(60,481)	(19,256)	(79,737)
NONOPERATING REVENUE			
Investment earnings	6	-	6
State grants	652	-	652
Federal grants	44,968	15,591	60,559
Donated food	10,281	-	10,281
TOTAL NONOPERATING REVENUE	55,907	15,591	71,498
Transfers In	-	3,665	3,665
Change In Net Position	(4,574)	-	(4,574)
Net position, beginning	3,771	-	3,771
NET POSITION, ENDING	\$ (803)	\$ -	(803)

The accompanying notes are an integral part of this statement.

ARLINGTON SCHOOL DISTRICT NO. 38-1

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	Food Service Fund	Other Enterprise Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 86,678	\$ 10,485	\$ 97,163
Payments to suppliers	(52,626)	(2,264)	(54,890)
Payments to employees	(86,290)	(27,477)	(113,767)
Net Cash Used by Operating Activities	(52,238)	(19,256)	(71,494)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from general fund	-	3,665	3,665
Proceeds from interfund payable	6,000	-	6,000
Operating subsidies	45,620	15,591	61,211
Net Cash Provided by Noncapital Financing Activities	51,620	19,256	70,876
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings	6	-	6
Net Cash Provided by Investing Activities	6	-	6
NET CHANGE IN CASH AND CASH EQUIVALENTS	(612)	-	(612)
Cash and cash equivalents, beginning	1,975	-	1,975
CASH AND CASH EQUIVALENTS, ENDING	\$ 1,363	\$ -	\$ 1,363
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES			
Operating loss	\$ (60,481)	\$ (19,256)	\$ (79,737)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation expense	209	-	209
Cost of sales - donated food	10,281	-	10,281
Change in assets and liabilities:			
Decrease (increase) in:			
Prepaid insurance	195	-	195
Inventories	(496)	-	(496)
Decrease in:			
Accounts payable	(43)	-	(43)
Employee benefits payable	(1,903)	-	(1,903)
NET CASH USED BY OPERATING ACTIVITIES	\$ (52,238)	\$ (19,256)	\$ (71,494)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Value of commodities received	\$ 10,281	\$ -	\$ 10,281

The accompanying notes are an integral part of this statement.

ARLINGTON SCHOOL DISTRICT NO. 38-1

STATEMENT OF POSITION - FIDUCIARY FUNDS
June 30, 2014

	Private-Purpose Trust Fund	Agency Funds	Total
ASSETS			
Cash and cash equivalents	\$ 58,018	\$ 49,168	\$ 107,186
Accrued interest	45	-	45
TOTAL ASSETS	\$ 58,063	\$ 49,168	\$ 107,231
LIABILITIES			
Amounts held for others	\$ -	\$ 49,168	\$ 49,168
TOTAL LIABILITIES	-	49,168	49,168
NET POSITION	58,063	-	58,063
TOTAL LIABILITIES AND NET POSITION	\$ 58,063	\$ 49,168	\$ 107,231

The accompanying notes are an integral part of this statement.

ARLINGTON SCHOOL DISTRICT NO. 38-1

STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS

June 30, 2014

	Private-Purpose Trust Fund
ADDITIONS:	
Earnings from deposits	\$ 232
TOTAL ADDITIONS	232
Change in Net Position	232
Net position, beginning	57,831
NET POSITION, ENDING	\$ 58,063

The accompanying notes are an integral part of this statement.

ARLINGTON SCHOOL DISTRICT NO. 38-1

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accounting policies of the Arlington School District No. 38-1 ("District") conform to generally accepted accounting principles as applicable to governments.

Reporting Entity

The reporting entity of the District consists of the primary government (which includes all 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 inclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The District participates in a cooperative service unit with several other school districts. See detailed note entitled "Joint Venture" for specific disclosures.

Basis of Presentation

Government-Wide Financial Statements:

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

The statement of net position reports all financial and capital resources, in a net position form (assets minus liabilities equals net position). Net positions 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, including all taxes, are presented as general revenues.

Fund Financial Statements:

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

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

ARLINGTON SCHOOL DISTRICT NO. 38-1

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

The funds of the District are described below within their respective fund types:

Governmental Funds:

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

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

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

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

Pension Fund - a fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts, which have established such systems, paying the 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 Funds - debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

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

Proprietary Funds:

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

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

Other Enterprise Fund - a fund used to record financial transactions related to the preschool and drivers education operations. This fund is financed by user charges. This is a major fund.

Fiduciary Funds:

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

Private-Purpose Trust Fund - private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations or other governments. The amounts accounted for in the District's private-purpose trust funds include amounts originating from donations for the purpose of paying scholarship monies to students.

ARLINGTON SCHOOL DISTRICT NO. 38-1

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

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 the results of operations. The District maintains a variety of agency funds. These funds are established to account for the monies earned by the student organizations for various expenditures.

The students of these organizations earn the monies recorded in the agency funds and determine the appropriate expenditures based on the purpose of the student organization.

Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-Wide Financial Statements:

In the government-wide statement of net position and statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

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

Basis of Accounting:

Government-Wide Financial Statements:

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

Fund Financial Statements:

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

Interfund Eliminations and Reclassifications

Government-Wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as internal balances.

ARLINGTON SCHOOL DISTRICT NO. 38-1

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables are reported as nonspendable fund balance to the extent that proceeds from the collection of those receivables are not restricted, committed or assigned. Current portions of interfund receivables are considered "available spendable resources" and are reported in the appropriate fund balance category.

Capital Assets

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

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

Government-Wide Statements:

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

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

At June 30, 2014, 9.40% of the total balance of capital assets for governmental activities and business-type activities are presented at estimated historical cost.

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ -0-	N/A	N/A
Buildings	\$ 25,000	Straight-line	33-50 yrs
Improvements, other than buildings	\$ 15,000	Straight-line	10-25 yrs
Infrastructure	\$ 15,000	Straight-line	5-25 yrs
Machinery and equipment	\$ 5,000	Straight-line	5-20 yrs
School Food Service machinery & equipment	\$ 1,000	Straight-line	5-20 yrs

Land, an inexhaustible capital asset, is not depreciated.

Fund Financial Statements:

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

Long-Term Liabilities

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statement. The long-term liabilities consist of general obligation bonds, early retirement benefits payable, compensated absences, capital outlay certificates payable and computer lease obligations.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

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.

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 for use in a particular program.

Proprietary Funds Revenue and Expense Classifications

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

Cash and Cash Equivalents

The District pools its governmental fund's cash resources for depositing and investing purposes. For the purpose of the statement of cash flows, the District considers all highly liquid investments and deposits (including restricted assets) with a term of maturity of three months or less when purchased to be cash equivalents.

Equity Classifications

Government-Wide Statements:

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

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and is distinguished between nonspendable, restricted, committed, assigned or unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for agency funds, which have no fund equity) is reported as net position held in trust for other purposes.

ARLINGTON SCHOOL DISTRICT NO. 38-1

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Fund Balance Classification Policies and Procedures

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

1. Nonspendable - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
2. Restricted - amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation.
3. Committed - amounts constrained to specific purposes that are internally imposed by the District through formal action of the highest level of decision making authority and does not lapse at year end.
4. Assigned - amounts a government intends to use for a specific purpose that are neither considered restricted or committed; intent can be expressed by the governing board or by an official or body to which the governing body delegates the authority. The District's assigned fund balance in the general fund represent amounts designated for next year's budget of \$357,470 and amounts designated for unemployment benefits of \$40,794.
5. Unassigned - amounts that include positive fund balances within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses restricted or committed amounts first when both restricted and unrestricted fund balances are available unless there are legal documents or contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

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

Application of Net Position

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

Deposits and Investments

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

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 which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or better or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

The actual bank balances at June 30, 2014, were as follows:

Insured (FDIC/NCUA)	\$ 250,000
Uninsured, collateral jointly held by state's/District's agent in the name of the state and the pledging financial institution	2,251,740
	<hr/> \$ 2,501,740

The District's carrying amount of deposits on the June 30, 2014, balance sheet was \$2,490,722.

ARLINGTON SCHOOL DISTRICT NO. 38-1

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Investments - in general, SDCL 4-5-6 permits District funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load mutual 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 that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

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

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.

Assignment of Investment Income - state law allows income from deposits and investments to be credited to either the general fund or the fund making the investment. The District's policy is to credit all income from investments to the fund making the investment.

Inventory

Inventory in the enterprise fund is valued at the lower of cost or market. The cost valuation method is first in first out. Donated commodities are valued at estimated market values based on the USDA price list at date of receipt.

In the government-wide financial statements and in the enterprise financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed. As of June 30, 2014, no material inventories of supplies existed in the governmental funds. In the governmental fund financial statements, inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased.

2. Property Tax

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

The District is permitted by state statute to levy the following amounts of taxes per \$1,000 of taxable valuation of the property in the District:

	Statute	Opt Out	Total Permitted	Actual
General Fund:				
Elementary and Four Year Accredited High School				
Agricultural property	2.09	0.60	2.69	2.69
Non-agricultural property	9.20	2.65	11.85	11.85
Owner occupied property	4.30	1.24	5.54	5.54
Capital Outlay Fund	3.00	-	3.00	2.15
Special Education Fund	1.55	-	1.55	1.55
Pension Fund	0.30	-	0.30	0.30
Bond Redemption Fund	1.18	-	1.18	1.18

ARLINGTON SCHOOL DISTRICT NO. 38-1

NOTES TO FINANCIAL STATEMENTS

2. Property Tax (Continued)

State statute allows the tax rates to be raised by special election of the District's voters. The following schedule reflects the taxable valuation for agricultural, non-agricultural and owner occupied real estate for each county included in the District:

	Agricultural	Non-Agricultural	Owner Occupied	Total
Kingsbury	\$ 93,917,947	\$ 15,994,399	\$ 28,174,639	\$ 138,086,985
Brookings	74,924,085	16,338,488	19,656,105	110,918,678
Hamlin	229,424	215,213	134,757	579,394
	\$ 169,071,456	\$ 32,548,100	\$ 47,965,501	\$ 249,585,057

3. Changes in Capital Assets

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

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 37,133	\$ -	\$ -	\$ 37,133
Construction in Progress	-	84,856	-	84,856
Total capital assets, being depreciated, net	37,133	84,856	-	121,989
Capital assets, being depreciated:				
Buildings and improvements	6,959,613	-	-	6,959,613
Equipment	946,656	45,052	(136,238)	855,470
Total	7,906,269	45,052	(136,238)	7,815,083
Less accumulated depreciation for:				
Buildings and improvements	1,704,986	136,835	-	1,841,821
Equipment	665,425	46,453	(127,761)	584,117
Total accumulated depreciation	2,370,411	183,288	(127,761)	2,425,938
Total capital assets, being depreciated, net	5,535,858	(138,236)	(8,477)	5,389,145
Governmental activity capital assets, net	\$ 5,572,991	\$ (53,380)	\$ (8,477)	\$ 5,511,134

Depreciation expense for the year ended June 30, 2014, was charged to functions as follows:

Instructional	\$ 37,695
Support	96,682
Cocurricular	48,911
Total depreciation expense - governmental activities	\$ 183,288

Construction in progress at June 30, 2014, consisted of bathroom renovations to the elementary school. The total cost of the project is estimated at \$124,000 and was completed in August, 2014.

Business-Type Activities:

Capital assets, being depreciated:				
Equipment	\$ 30,528	\$ -	\$ -	\$ 30,528
Total	30,528	-	-	30,528
Less accumulated depreciation for:				
Equipment	29,840	209	-	30,049
Total capital assets, being depreciated, net	\$ 688	\$ (209)	\$ -	\$ 479

Depreciation expense for the year ended June 30, 2014, was charged to the food service function for \$209.

ARLINGTON SCHOOL DISTRICT NO. 38-1

NOTES TO FINANCIAL STATEMENTS

4. Long-Term Debt

A summary of changes in long-term debt, excluding other post employment benefits, follows:

	General Obligation Bonds	Capital Outlay Certificates	Computer Lease Payable
Balance, beginning	\$ 2,305,000	\$ 790,000	\$ -
New issuances	-	-	157,282
Earned compensated absences	-	-	-
Repayments and used absences	(235,000)	(60,000)	(41,605)
Balance, ending	\$ 2,070,000	\$ 730,000	\$ 115,677

	Compensated Absences	Early Retirement	Total
Balance, beginning	\$ 35,826	\$ 30,879	\$ 3,161,705
New issuances	-	-	157,282
Earned compensated absences	26,563	-	26,563
Repayments and used absences	(26,587)	(15,440)	(378,632)
Balance, ending	\$ 35,802	\$ 15,439	\$ 2,966,918

In prior years, the District defeased certain long-term debt by placing the proceeds of new debt in an irrevocable trust to provide for all future debt service payments on the old debt. Accordingly, the assets being held in trust and the liability for the defeased debt are not included in the District's financial statements. On June 30, 2014, the District had \$696,608 on deposit with the escrow agent in this irrevocable trust to retire \$685,000 of old debt still outstanding which is now considered to be defeased.

Debt payable at June 30, 2014, is comprised of the following:

General Obligation Refunding Bonds, Series 2011, maturity dates - July, 2013 to July, 2022, interest rates from .85% (with a set annual increase ranging from .10 to .35) to a max of 3.40%, payments made from Debt Service Fund	\$ 2,070,000
Capital Outlay Certificates, Refunding Series 2012, maturity dates - July, 2014 to July, 2023, interest rates from .60% (with a set annual increase ranging from .10 to .30) to a max of 2.30%, payments made from Capital Outlay Fund	\$ 730,000
Computer Lease Payable, maturity dates - July, 2014 to July, 2016, interest rates of 3.90%, payments made from Capital Outlay Fund	\$ 115,677

The District's compensated absences consist of vacation and sick leave. The District's policy allows employees to accrue up to a maximum of 25 days leave for certified and 40 days for classified. The certified employee's leave is paid at a rate of \$35 per day and the classified employee's leave is paid at a rate of \$45 per day. At June 30, 2014, the compensated absences liability was \$35,802, which consisted of \$6,282 to be retired by business-type activities and \$29,520 to be retired by governmental activities.

The District's retirement policy provides cash benefits of up to 70% of current contract salaries to teachers and administrative personnel, with at least 10 years of service, who retire after reaching age 55 but before reaching age 60. The cash benefit is paid in annual installments due in July of each year. Those retiring have the option of receiving payments in two through six annual installments. The early retirement cash payments are funded through the pension fund and are recorded as a liability in the statement of net position. There was a \$15,439 liability related to early retirement for the year ended June 30, 2014.

ARLINGTON SCHOOL DISTRICT NO. 38-1

NOTES TO FINANCIAL STATEMENTS

4. Long-Term Debt (Continued)

The annual requirements to amortize all debt outstanding, excluding other post employment benefits, as of June 30, 2014, including interest payments of \$359,757 are as follows:

	<u>General Obligation Bonds</u>		<u>Capital Outlay Certificates</u>		Compensated Absences
	Principal	Interest	Principal	Interest	
2015	\$ 240,000	\$ 54,652	\$ 75,000	\$ 10,640	\$ 35,802
2016	240,000	50,932	75,000	10,190	-
2017	245,000	46,853	80,000	9,665	-
2018	250,000	41,340	75,000	8,945	-
2019	260,000	34,840	80,000	8,120	-
2020-2023	835,000	55,920	345,000	18,522	-
Total	\$ 2,070,000	\$ 284,537	\$ 730,000	\$ 66,082	\$ 35,802

	<u>Early</u>	<u>Laptops</u>		<u>Totals</u>	
	Retirement	Principal	Interest	Principal	Interest
2015	\$ 15,439	\$ 37,094	\$ 4,511	\$ 403,335	\$ 69,803
2016	-	38,540	3,065	353,540	64,187
2017	-	40,043	1,562	365,043	58,080
2018	-	-	-	325,000	50,285
2019	-	-	-	340,000	42,960
2020-2023	-	-	-	1,180,000	74,442
Total	\$ 15,439	\$ 115,677	\$ 9,138	\$ 2,966,918	\$ 359,757

5. Other Post Employment Benefits

During fiscal year 2010, the District adopted the provisions of GASB 45 “Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions.” The premise of GASB 45 is to recognize costs of post employment benefits (“OPEB”) to the period which the employee earns them. This liability is included in long-term debt, due in more than one year, on the statement of net position.

Plan Description

The District operates a single-employer retiree benefit plan (“Plan”) that offers medical insurance benefits to eligible employees and their spouses. The Plan does not issue a stand-alone financial report. The authority for providing other post employment benefits is found in South Dakota Codified Law 6-1-16 and 13-10-3. Benefits and eligibility for employees are established and amended through collective bargaining with the recognized bargaining agent for the employees. There are 32 active and no retired members enrolled.

Funding Policy

The District is currently funding the Plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The District’s annual post employment benefit cost is calculated based on the annual required contribution of the employer (“ARC”), an amount actuarially determined in accordance with the parameters of GASB 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 thirty years.

ARLINGTON SCHOOL DISTRICT NO. 38-1

NOTES TO FINANCIAL STATEMENTS

5. Other Post Employment Benefits (Continued)

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$ 11,145
Interest on net OPEB obligation	1,583
Adjustment to annual required contribution	(2,485)
Annual OPEB cost	10,243
Contributions made	(2,044)
Increase in net OPEB obligation	8,199
Net OPEB obligation, beginning of year	48,701
Net OPEB obligation, end of year	\$ 56,900

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2014 and the two years preceding were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$10,243	19.90%	\$56,900
2013	\$10,173	9.10%	\$48,701
2012	\$10,123	2.40%	\$39,458

Funded Status and Funding Progress

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 trends information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefit.

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 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.

In the June 30, 2012 actuarial valuation, the Unit Credit Actuarial Cost Method was used. The actuarial assumptions included a 3.25% interest discount rate and an annual medical healthcare cost trend rate of 8.50% initially, reduced by decrements to an ultimate rate of 5.70% after 10 years. An annual medical healthcare cost trend rate of 8.50% was used for the year ended June 30, 2014. The unfunded actuarial accrued liability ("AAL") is being amortized over 30 years from establishment. Differences between the expected and actual UAAL in future years will be amortized over 30 years.

6. Violations of Finance-Related Legal and Contractual Provisions

The District is prohibited by statute from spending in excess of appropriated amounts at the fund level. The District over expended the Capital Outlay appropriations by \$86,413 due to its failure to amend the budget for additional proceeds and expenditures related to an obligation under a new computer lease agreement entered into in fiscal year 2014. The Governing Board plans to monitor items of this nature in the future.

ARLINGTON SCHOOL DISTRICT NO. 38-1

NOTES TO FINANCIAL STATEMENTS

7. Restricted Net Position

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

Purpose	Restricted By	Amount
Capital Outlay	Law	\$ 408,692
Special Education	Law	330,483
Debt Service	Debt Covenants	64,568
Pension	Law	108,709
		<u>\$ 912,452</u>

8. Individual Fund Interfund Balances and Transactions

At June 30, 2014, the Food Service Fund owed the General Fund \$6,000 for support of operations. During the year ended June 30, 2014, the General Fund transferred \$3,665 to assist with operations in the other enterprise fund for drivers education and preschool services.

9. Retirement Plan

All employees, except for temporary employees working fewer than 20 hours per week, participate in the South Dakota Retirement System ("SDRS"), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or calling (605) 773-3731. Covered employees are required by state statute to contribute the following percentages of their salary to the Plan; Class A Members, 6.00% of salary; Class B Judicial Members, 9.00% of salary; and Class B Public Safety Members, 8.00% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The District's share of contributions to the SDRS for the fiscal years ended June 30, 2014, 2013 and 2012, was \$92,133, \$88,241 and \$87,418, respectively, equal to the required contributions each year.

10. Joint Ventures

The District participates in the Northeast Educational Services Cooperative ("NESC"), a cooperative service unit formed for the purpose of providing services to the member school districts.

The members of the NESC and their relative percentage participation are as follows:

Arlington School District No. 38-1	3.22%
Britton-Hecla School District No. 45-4	7.38
Castlewood School District No. 28-1	3.52
Clark School District No. 12-2	5.39
DeSmet School District No. 38-2	3.43
Deubrook School District No. 5-6	4.61
Deuel School District No. 19-4	5.72
Elkton School District No. 5-3	3.92
Enemy Swim District	3.50
Estelline School District No. 28-2	4.50
Florence School District No. 14-1	3.42
Grant-Deuel School District No. 25-3	3.11
Hamlin School District No. 28-3	6.01
Henry School District No. 14-2	3.60
Iroquois School District No. 2-3	3.52
Lake Preston School District No. 38-3	3.50
Rosholt School District No. 54-4	2.63
Sioux Valley School District No. 5-5	7.48
Summit School District No. 54-6	1.63
Waubay School District No. 18-3	4.19
Waverly-South Shore School District No. 14-5	2.32

ARLINGTON SCHOOL DISTRICT NO. 38-1

NOTES TO FINANCIAL STATEMENTS

10. Joint Ventures (Continued)

Webster School District No. 18-5	7.68
Willow Lake School District No. 12-3	2.52
Wilmot School District No. 54-7	3.20
	<hr/>
	100.00%

The NESC's governing board is composed of one representative from each member school district, who are school board members or superintendents of the schools. The board is responsible for adopting the NESC'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 NESC, but does have a responsibility to fund deficits of the NESC in proportion to the relative participation described above.

This footnote information was obtained from unaudited financial statements, because as of the report date, the audited financial statements were unavailable. Separate financial statements for this joint venture are available from Northeast Educational Services Cooperative, PO Box 327, Hayti, SD 57241.

At June 30, 2014, this joint venture had total net position of \$936,507 and did not have any long-term debt.

11. 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, 2014, the District managed its risks as follows:

Employee Health Insurance

The District joined the South Dakota School District Health Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage also includes a \$2,000,000 lifetime maximum payment per person.

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

Liability Insurance

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

Workmen's Compensation

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

Unemployment Benefits

The District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. The District paid unemployment claims during the year ended June 30, 2014, of \$1,741. At June 30, 2014, no additional claims have been filed for unemployment benefits and none are anticipated in the next fiscal year.

12. Subsequent Events

Management has evaluated subsequent events through October 23, 2014, the date the financial statements were available to be issued. The construction in progress commitment is described in Note 3. No additional significant subsequent events have been identified that would require adjustment of or disclosure in the accompanying financial statements.

ARLINGTON SCHOOL DISTRICT NO. 38-1

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES				
Local Sources:				
Ad valorem taxes	\$ 1,097,426	\$ 1,097,426	\$ 1,158,961	\$ 61,535
Earnings on investments and deposits	2,100	3,095	3,103	8
Cocurricular activities:				
Admissions	24,900	29,400	30,505	1,105
Other revenue from local sources:				
Rentals	200	700	797	97
Other	11,600	15,510	19,443	3,933
	1,136,226	1,146,131	1,212,809	66,678
Intermediate Sources:				
County sources	14,500	14,500	15,816	1,316
Other	1,500	11,141	13,221	2,080
	16,000	25,641	29,037	3,396
State Sources:				
Unrestricted grants-in-aid	753,315	784,803	790,599	5,796
Other state revenue	500	500	1,415	915
	753,815	785,303	792,014	6,711
Federal Sources:				
Unrestricted grants-in-aid	35,746	41,249	45,414	4,165
Total Revenues	1,941,787	1,998,324	2,079,274	80,950
EXPENDITURES				
Instructional Services:				
Regular programs:				
Elementary	479,900	479,900	461,515	18,385
Middle school	110,400	114,350	95,845	18,505
High school	426,325	433,006	409,386	23,620
Special programs:				
Educationally deprived	56,500	56,500	51,273	5,227
	1,073,125	1,083,756	1,018,019	65,737
Support Services:				
Pupils:				
Guidance	44,085	44,085	42,377	1,708
Instructional staff:				
Improvement of instruction	13,300	13,300	7,499	5,801
Educational media	125,500	125,500	117,922	7,578
General administration:				
Board of education	44,300	56,800	51,512	5,288
Executive administration	133,000	133,000	131,573	1,427
School administration:				
Office of the principal	134,375	134,375	121,984	12,391
Other	1,200	1,200	581	619
Business:				
Fiscal services	131,150	132,891	115,621	17,270
Operation and maintenance of plant	233,450	233,450	209,765	23,685
Pupil transportation	87,325	87,325	60,541	26,784
Food services	-	28,000	23,973	4,027
	947,685	989,926	883,348	106,578
Cocurricular Activities:				
Male activities	65,225	65,225	44,346	20,879
Female activities	48,000	48,000	37,759	10,241
Transportation	9,400	9,400	7,947	1,453
Combined activities	78,150	78,150	60,361	17,789
	200,775	200,775	150,413	50,362
Contingency	50,000	50,000	-	50,000
Total Expenditures	2,271,585	2,324,457	2,051,780	272,677
Excess of Revenues Over (Under) Expenditures	(329,798)	(326,133)	27,494	353,627
Other Financing Sources:				
Transfer out	-	(3,665)	(3,665)	-
Net Change in Fund Balance	(329,798)	(329,798)	23,829	353,627
Fund balance, beginning	1,285,015	1,285,015	1,285,015	-
FUND BALANCE, ENDING	\$ 955,217	\$ 955,217	\$ 1,308,844	\$ 353,627

ARLINGTON SCHOOL DISTRICT NO. 38-1

BUDGETARY COMPARISON SCHEDULE - CAPITAL OUTLAY FUND
 Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES				
Local Sources:				
Ad valorem taxes	\$ 517,610	\$ 517,610	\$ 521,177	\$ 3,567
Earnings on investments and deposits	300	300	1,037	737
Other local revenue	-	-	1,180	1,180
	517,910	517,910	523,394	5,484
Federal Sources:				
Other federal revenue	-	30,427	30,427	-
Total Revenues	517,910	548,337	553,821	5,484
EXPENDITURES				
Instructional Services:				
Regular programs:				
Elementary	14,625	14,625	10,910	3,715
Middle school	12,850	12,850	10,268	2,582
High school	79,850	101,081	185,713	(84,632)
	107,325	128,556	206,891	(78,335)
Support Services - Business:				
Instructional staff:				
Educational media	6,675	6,675	1,540	5,135
General administration:				
Board of education	550	550	-	550
School administration:				
Office of the principal	2,475	2,475	1,130	1,345
Business:				
Fiscal services	5,850	5,850	2,899	2,951
Operation and maintenance of plant	236,810	260,506	265,667	(5,161)
Pupil transportation	57,000	57,000	39,000	18,000
	309,360	333,056	310,236	22,820
Debt Services	89,750	89,750	131,183	(41,433)
Cocurricular Activities:				
Male activities	4,100	4,100	-	4,100
Female activities	7,000	7,000	6,424	576
Combined activities	375	375	-	375
	11,475	11,475	6,424	5,051
Total Expenditures	517,910	562,837	654,734	(91,897)
Excess of Expenditures Over Revenues	-	(14,500)	(100,913)	(86,413)
Other Financing Sources:				
Computer lease proceeds	-	-	157,282	157,282
Net Change in Fund Balance	-	(14,500)	56,369	70,869
Fund balance, beginning	352,323	352,323	352,323	-
FUND BALANCE, ENDING	\$ 352,323	\$ 337,823	\$ 408,692	\$ 70,869

ARLINGTON SCHOOL DISTRICT NO. 38-1

BUDGETARY COMPARISON SCHEDULE - SPECIAL EDUCATION FUND
 Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES				
Local Sources:				
Ad valorem taxes	\$ 300,658	\$ 300,658	\$ 353,889	\$ 53,231
Earnings on investments and deposits	-	-	652	652
Other local revenue	1,000	1,000	4,279	3,279
	<u>301,658</u>	<u>301,658</u>	<u>358,820</u>	<u>57,162</u>
Total Revenues	301,658	301,658	358,820	57,162
EXPENDITURES				
Instructional Services:				
Special programs:				
Programs for special education	267,265	277,374	257,870	19,504
Early childhood	4,600	4,600	3,594	1,006
	<u>271,865</u>	<u>281,974</u>	<u>261,464</u>	<u>20,510</u>
Support Services:				
Pupils:				
Transition coordinator	500	500	357	143
Psychological	8,500	8,500	6,797	1,703
Speech pathology and audiology	17,000	17,000	14,095	2,905
Student therapy services	14,200	14,200	10,836	3,364
Central:				
Other	1,418	1,418	753	665
	<u>41,618</u>	<u>41,618</u>	<u>32,838</u>	<u>8,780</u>
Total Expenditures	313,483	323,592	294,302	29,290
Excess of Revenues Over (Under) Expenditures	(11,825)	(21,934)	64,518	86,452
Fund balance, beginning	265,965	265,965	265,965	-
FUND BALANCE, ENDING	\$ 254,140	\$ 244,031	\$ 330,483	\$ 86,452

ARLINGTON SCHOOL DISTRICT NO. 38-1

BUDGETARY COMPARISON SCHEDULE - PENSACOLA FUND
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES				
Local Sources:				
Ad valorem taxes	\$ 70,404	\$ 70,404	\$ 71,196	\$ 792
Earnings on investments and deposits	85	85	260	175
Total Revenues	70,489	70,489	71,456	967
EXPENDITURES				
Instructional Services:				
Regular programs:				
Elementary	11,500	11,500	9,879	1,621
Middle school	3,500	3,500	1,991	1,509
High school	9,000	9,000	8,759	241
	24,000	24,000	20,629	3,371
Support Services:				
Pupils:				
Guidance	1,500	1,500	966	534
Instructional staff:				
Improvement of instruction	700	700	90	610
Educational media	2,600	2,600	2,151	449
General administration:				
Executive administration	3,600	3,600	3,611	(11)
School administration:				
Office of the principal	3,000	3,000	2,320	680
Business:				
Fiscal services	2,500	2,500	2,047	453
Operation and maintenance of plant	3,300	3,300	2,946	354
Pupil transportation	775	775	426	349
Food services	4,700	4,700	4,516	184
Other	-	-	93	(93)
	22,675	22,675	19,166	3,509
Nonprogrammed Charges:				
Early retirement payments	18,286	18,286	16,621	1,665
	18,286	18,286	16,621	1,665
Cocurricular Activities:				
Male activities	1,500	1,500	531	969
Female activities	1,500	1,500	598	902
Combined activities	2,528	2,528	926	1,602
	5,528	5,528	2,055	3,473
Total Expenditures	70,489	70,489	58,471	12,018
Excess of Revenues Over Expenditures	-	-	12,985	12,985
Fund balance, beginning	95,724	95,724	95,724	-
FUND BALANCE, ENDING	\$ 95,724	\$ 95,724	\$ 108,709	\$ 12,985

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. Budgets and Budgetary Accounting

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

- a. Prior to the first regular board meeting in May of each year the School Board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
- b. The proposed budget is considered by the School Board at the first regular meeting held in the month of May of each year.
- c. The proposed budget is published for public review no later than July 15 of each year.
- d. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
- e. 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.
- f. 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 letter h.
- g. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5.00% of the total school district budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
- h. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when monies are available to increase legal spending authority.
- i. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board.
- j. Formal budgetary integration is employed as a management control device during the year for the general fund and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Generally accepted accounting principles prescribe that budgetary information be presented for the general fund and special revenue funds of the District only.
- k. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles.

The financial statements prepared in conformity with accounting principles generally accepted in the United States of America present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new school bus would be reported as a capital outlay expenditure on the governmental funds statement of revenues, expenditures and changes in fund balances, however in the budgetary required supplementary information schedule, the purchase of a school bus would be reported as an expenditure of the support services - business/pupil transportation function of government, along with all other current pupil transportation related expenditures.

ARLINGTON SCHOOL DISTRICT NO. 38-1

SCHEDULE OF FUNDING PROGRESS FOR POST EMPLOYMENT BENEFITS
 Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2012	-	68,536	68,536	0.00%	1,561,612	4.39%
6/30/2009	-	49,860	49,860	0.00%	1,510,418	3.30%

ARLINGTON SCHOOL DISTRICT NO. 38-1

SCHOOL DISTRICT OFFICIALS

June 30, 2014

Board of Education

Martin Murphy

Curt Henry

Michael Baker

Marshal Mix

Daniel Rowen

President

Vice President

Board Member

Board Member

Board Member

Superintendent

Chris Lund

Business Manager

Brian Sampson