

**CANTON SCHOOL DISTRICT NO 41-1
INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS**

JUNE 30, 2014

CANTON SCHOOL DISTRICT NO 41-1
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2014

School Board

Craig Stearns

Kevin Jensen

Bruce Henke

Tanya Iverson

Todd Larson

Emily Plucker

Tracey Zylstra

Business Manager

Nancy Thompson

Superintendent

Terry Gerber

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QUAM & BERGLIN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
110 WEST MAIN – P.O. BOX 426
ELK POINT, SOUTH DAKOTA 57025

(605) 356-3374

INDEPENDENT AUDITOR'S REPORT

School Board
Canton School District No. 41-1
Lincoln County, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Canton School District No. 41-1, Lincoln County, South Dakota, as of June 30, 2014 and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

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 School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinions

Management has elected not to record their long-term financial obligations and commitments related to other postemployment benefits (OPEB) in the governmental activities Statement of Net Position. Accounting principles generally accepted in the United States of America require OPEB costs to be recognized and reported in a systematic, accrual-basis measurement over a period that approximates employees' years of service, which would most likely increase long-term liabilities and expenditures and decrease net assets in the governmental activities Statement of Net Position. Accounting principles generally accepted in the United States of America also require information to be provided about actuarial accrued liabilities associated with OPEB and whether, and to what extent, progress is being made in funding the plan. The amount by which this departure would affect the liabilities, net position and expenditures of the governmental activities is not reasonably determinable

Qualified Opinions

In our opinion, except for the effects of not recording their long-term financial obligations and commitments related to OPEB as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Canton School District No. 41-1 as of June 30, 2014, and the respective changes in financial position and, where applicable cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of Canton School District No. 41-1 as of June 30, 2014, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

(June 2014)

an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2014 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Quam & Berglin, P.C.

Quam & Berglin, P.C.
Certified Public Accountants
Elk Point, SD

November 17, 2014

CANTON SCHOOL DISTRICT NO. 41-1
STATEMENT OF NET POSITION
JUNE 30, 2014

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
ASSETS:			
Cash and Cash Equivalents	\$ 2,318,036.10	\$ 34,840.08	\$ 2,352,876.18
Investments	1,957,075.47		1,957,075.47
Taxes Receivable	2,074,457.85		2,074,457.85
Accounts Receivable	805.71		805.71
Due from Other Governments	186,683.02		186,683.02
Inventories		4,494.69	4,494.69
Capital Assets:			
Land	148,509.75		148,509.75
Other Capital Assets, Net of Depreciation	<u>9,977,955.94</u>	<u>42,101.08</u>	<u>10,020,057.02</u>
TOTAL ASSETS	<u>16,663,523.84</u>	<u>81,435.85</u>	<u>16,744,959.69</u>
LIABILITIES :			
Accounts Payable	30,392.04	20,654.26	51,046.30
Contracts Payable	460,898.60		460,898.60
Accrued Salaries and Benefits Payable	92,896.02		92,896.02
Unearned Revenue		8,743.73	8,743.73
Noncurrent Liabilities:			
Due Within One Year	657,640.48		657,640.48
Due in More than One Year	<u>2,257,827.79</u>		<u>2,257,827.79</u>
TOTAL LIABILITIES	<u>3,499,654.93</u>	<u>29,397.99</u>	<u>3,529,052.92</u>
DEFERRED INFLOWS OF RESOURCES:			
Taxes levied for Future Period	<u>2,012,910.68</u>		<u>2,012,910.68</u>
NET POSITION:			
Net Investment in Capital Assets	7,236,465.69	42,101.08	7,278,566.77
Restricted for:			
Capital Outlay	464,910.49		464,910.49
Debt Service	367,674.98		367,674.98
Pension	196,915.63		196,915.63
Unrestricted (Deficit)	<u>2,884,991.44</u>		<u>2,884,991.44</u>
TOTAL NET POSITION	<u>\$ 11,150,958.23</u>	<u>\$ 52,037.86</u>	<u>\$ 11,202,996.09</u>

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

CANTON SCHOOL DISTRICT NO. 41-1
STATEMENT OF ACTIVITIES
JUNE 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government</u>		
				<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Primary Government:						
Governmental Activities:						
Instruction	\$ 3,791,847.82	\$	\$ 518,336.65	\$ (3,273,511.17)	\$	\$ (3,273,511.17)
Support Services	2,661,609.12	8,077.00		(2,653,532.12)		(2,653,532.12)
*Interest on Long-term Debt	100,217.50			(100,217.50)		(100,217.50)
Cocurricular Activities	452,121.98	52,755.65		(399,366.33)		(399,366.33)
Total Governmental Activities	<u>7,005,796.42</u>	<u>60,832.65</u>	<u>518,336.65</u>	<u>(6,426,627.12)</u>		<u>(6,426,627.12)</u>
Business-type Activities:						
Food Service	332,424.19	195,272.01	147,480.17		10,327.99	10,327.99
Total Primary Government	<u>\$ 7,338,220.61</u>	<u>\$ 256,104.66</u>	<u>\$ 665,816.82</u>	<u>(6,426,627.12)</u>	<u>10,327.99</u>	<u>(6,416,299.13)</u>
			General Revenues:			
			Taxes:			
			Property Taxes	4,305,639.77		4,305,639.77
			Utility Taxes	186,683.02		186,683.02
			Revenue from State Sources:			
			State Aid	2,354,090.15		2,354,090.15
			Unrestricted Investment Earnings	43,745.05		43,745.05
			Other General Revenues	71,707.83		71,707.83
			Total General Revenues	<u>6,961,865.82</u>		<u>6,961,865.82</u>
			Change in Net Position	535,238.70	10,327.99	545,566.69
			Net Position-Beginning	<u>10,615,719.53</u>	<u>41,709.87</u>	<u>10,657,429.40</u>
			NET POSITION - ENDING	<u>\$ 11,150,958.23</u>	<u>\$ 52,037.86</u>	<u>\$11,202,996.09</u>

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

**CANTON SCHOOL DISTRICT NO. 41-1
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

ASSETS	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>Bond Redemption Fund</u>	<u>Total Governmental Funds</u>
Assets:						
Cash and Cash Equivalents	\$ 1,375,492.01	\$ 452,996.48	\$ 78,159.74	\$ 50,362.91	\$ 361,024.96	\$ 2,318,036.10
Investments	1,812,356.52			144,718.95		1,957,075.47
Taxes Receivable--Current	860,673.96	542,091.22	324,836.15	62,790.50	222,518.85	2,012,910.68
Taxes Receivable--Delinquent	29,040.49	15,464.01	8,558.88	1,833.77	6,650.02	61,547.17
Accounts Receivable	805.71					805.71
Due from Other Government	186,683.02					186,683.02
TOTAL ASSETS	<u>\$ 4,265,051.71</u>	<u>\$ 1,010,551.71</u>	<u>\$ 411,554.77</u>	<u>\$ 259,706.13</u>	<u>\$ 590,193.83</u>	<u>\$ 6,537,058.15</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:						
Liabilities:						
Accounts Payable	\$ 5,750.15	\$ 3,550.00	\$ 21,091.89	\$	\$	\$ 30,392.04
Contracts Payable	387,316.58		73,582.02			460,898.60
Payroll Deductions and Withholdings and Employer Matching Payable	79,041.66		13,854.36			92,896.02
Total Liabilities	<u>472,108.39</u>	<u>3,550.00</u>	<u>108,528.27</u>			<u>584,186.66</u>
Deferred Inflows of Resources:						
Taxes Levied for a Future Period	860,673.96	542,091.22	324,836.15	62,790.50	222,518.85	2,012,910.68
Unavailable Revenue-Property Taxes	29,040.49	15,464.01	8,558.88	1,833.77	6,650.02	61,547.17
Total Deferred Inflows of Resources	<u>889,714.45</u>	<u>557,555.23</u>	<u>333,395.03</u>	<u>64,624.27</u>	<u>229,168.87</u>	<u>2,074,457.85</u>
Fund Balances:						
Restricted		449,446.48		195,081.86	361,024.96	1,005,553.30
Assigned	560,145.63					560,145.63
Unassigned	2,343,083.24		(30,368.53)			2,312,714.71
Total Fund Balances	<u>2,903,228.87</u>	<u>449,446.48</u>	<u>(30,368.53)</u>	<u>195,081.86</u>	<u>361,024.96</u>	<u>3,878,413.64</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 4,265,051.71</u>	<u>\$ 1,010,551.71</u>	<u>\$ 411,554.77</u>	<u>\$ 259,706.13</u>	<u>\$ 590,193.83</u>	<u>\$ 6,537,058.15</u>

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

**CANTON SCHOOL DISTRICT NO. 41-1
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total Fund Balances - Governmental Funds		\$ 3,878,413.64
<p>Amounts reported for governmental activities in the statement of net position are different because:</p> <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>		
The cost of the assets is:	\$16,777,237.78	
The accumulated depreciation is:	<u>(6,650,772.09)</u>	10,126,465.69
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:</p>		
Capital Outlay Certificates Payable	(2,140,000.00)	
Bonds Payable	(750,000.00)	
Compensated Absences	<u>(25,468.27)</u>	(2,915,468.27)
Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures, are deferred in the		<u>61,547.17</u>
Net Position - Governmental Funds		<u>\$11,150,958.23</u>

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

CANTON SCHOOL DISTRICT NO. 41-1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>Bond Redemption Fund</u>	<u>Total Governmental Funds</u>
Revenues:						
Revenue from Local Sources:						
Taxes:						
Ad Valorem Taxes	\$ 1,766,501.89	\$ 1,167,591.03	\$ 670,309.14	\$ 135,242.30	\$ 489,007.72	\$ 4,228,652.08
Prior Years' Ad Valorem Taxes	25,730.24	14,608.85	8,023.99	1,718.68	6,315.32	56,397.08
Utility Taxes	186,683.02					186,683.02
Penalties and Interest on Taxes	6,280.72	2,243.35	1,250.86	267.28	2,802.32	12,844.53
Earnings on Investments and Deposits	43,745.05					43,745.05
Cocurricular Activities:						
Admissions	46,711.65					46,711.65
Activity Ticket Sales	8,077.00					8,077.00
Yearbook Sales	6,044.00					6,044.00
Other Revenue from Local Sources:						
Rentals	2,260.00					2,260.00
Contributions and Donations	22,365.85	10,284.40				32,650.25
Judgments						
Charge for Services	33,778.76		49,820.09			83,598.85
Other	6,013.46					6,013.46
Revenue from Intermediate Sources:						
County Sources:						
County Apportionment	24,933.12					24,933.12
Revenue from State Sources:						
Grants-in-Aid:						
Unrestricted Grants-in-Aid	2,354,090.15					2,354,090.15
Restricted Grants-in-Aid	13,750.80		236,150.00			249,900.80
Revenue from Federal Sources:						
Grants-in-Aid:						
Restricted Grants-in-Aid Received from Federal Government Through the State	184,837.00					184,837.00
Total Revenue	<u>4,731,802.71</u>	<u>1,194,727.63</u>	<u>965,554.08</u>	<u>137,228.26</u>	<u>498,125.36</u>	<u>7,527,438.04</u>

Expenditures:

Instruction:

Regular Programs:

Elementary	1,103,923.73	27,325.29	52,480.39	1,183,729.41
Middle/Junior High	504,183.43	30,486.15	23,674.68	558,344.26
High School	716,862.66	22,994.57	32,862.08	772,719.31

Special Programs:

Programs for Special Education		1,854.95	805,904.26	807,759.21
Programs for Educationally Deprived	141,682.29			141,682.29
Other Special Programs	49,138.23			49,138.23

Support Services:

Pupils:

Attendance and Social Work	52,337.11			52,337.11
Guidance	108,885.97	145.20		109,031.17
Health	42,618.15			42,618.15
Psychology			5,617.00	5,617.00
Speech Pathology			24,665.75	24,665.75
Student Therapy Services			57,916.04	57,916.04

Support Services - Instructional Staff:

Improvement of Instruction	14,713.34			14,713.34
Educational Media	157,181.84	132.37		157,314.21

Support Services - General Administration:

Board of Education	107,210.55			107,210.55
Executive Administration	152,999.78		7,173.24	160,173.02

Support Services - School Administration:

Office of the Principal	272,017.49		12,513.69	284,531.18
Other	1,280.24			1,280.24

Support Services - Business:

Fiscal Services	163,747.76	293.15		164,040.91
Facilities Acquisition and Construction		6,385.00		6,385.00
Operation and Maintenance of Plant	797,732.22	140,975.72		938,707.94
Pupil Transportation		250,000.00		250,000.00
Food Services		273.11		273.11
Internal Services	19,039.30			19,039.30

Support Services - Special Education:

Administrative Costs			97,055.49	97,055.49
Transportation Costs			39,318.36	39,318.36
Other Special Education Costs			1,800.00	1,800.00

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CANTON SCHOOL DISTRICT NO. 41-1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>Bond Redemption Fund</u>	<u>Total Governmental Funds</u>
Nonprogrammed Charges						
Early Retirement Payments				30,000.00		30,000.00
Debt Services		240,760.00			494,457.50	735,217.50
Cocurricular Activities:						
Male Activities	76,995.58	19,030.42				96,026.00
Female Activities	42,150.61	2,825.71				44,976.32
Combined Activities	305,918.66	5,201.00				311,119.66
Capital Outlay		89,270.32				89,270.32
Total Expenditures	<u>4,830,618.94</u>	<u>837,952.96</u>	<u>1,032,276.90</u>	<u>158,704.08</u>	<u>494,457.50</u>	<u>7,354,010.38</u>
Excess of Revenue Over (Under)						
Expenditures	(98,816.23)	356,774.67	(66,722.82)	(21,475.82)	3,667.86	173,427.66
Other Financing Sources:						
Sales of Surplus Property		<u>5,851.00</u>				<u>5,851.00</u>
Net Change in Fund Balances	(98,816.23)	362,625.67	(66,722.82)	(21,475.82)	3,667.86	179,278.66
Fund Balance Beginning	<u>3,002,045.10</u>	<u>86,820.81</u>	<u>36,354.29</u>	<u>216,557.68</u>	<u>357,357.10</u>	<u>3,699,134.98</u>
FUND BALANCE - ENDING	<u>\$ 2,903,228.87</u>	<u>\$ 449,446.48</u>	<u>\$ (30,368.53)</u>	<u>\$ 195,081.86</u>	<u>\$ 361,024.96</u>	<u>\$ 3,878,413.64</u>

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

**CANTON SCHOOL DISTRICT NO. 41-1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
JUNE 30, 2014**

Net Change in Fund Balances - Total Governmental Funds \$ 179,278.66

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 expense exceeds capital outlays during this period.

Capital Outlays	\$ 89,270.32	
Depreciation Expense	<u>(409,522.22)</u>	(320,251.90)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of the repayments.

General Obligation Bonds	470,000.00	
Capital Outlay Certificates	<u>165,000.00</u>	635,000.00

Governmental funds do not reflect the change in accrued leave and early retirement benefits, but the statement of activities reflects the change in accrued leave and early retirement benefits through expenses. 33,465.86

In both the government-wide and fund financial statements, revenues from property tax levies and are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the funds' statements differs from the accounting in the government wide statements in that the fund financial statements require the amounts to be "available". This amount reflects the application of both the application period and "availability criteria". 7,746.08

Change in Net Position of Governmental Activities \$ 535,238.70

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

**CANTON SCHOOL DISTRICT NO. 41-1
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014**

	<u>Food Service Fund</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 34,840.08
Inventory of Supplies	729.47
Inventory of Stores Purchased for Resale	2,640.41
Inventory of Donated Food	<u>1,124.81</u>
Total Current Assets	<u>39,334.77</u>
Capital Assets:	
Machinery and Equipment	131,495.16
Less: Accumulated Depreciation	<u>(89,394.08)</u>
Total Noncurrent Assets	<u>42,101.08</u>
TOTAL ASSETS	<u>81,435.85</u>
LIABILITIES:	
Current Liabilities:	
Accounts Payable	20,654.26
Revenue Collected in Advance	<u>8,743.73</u>
Total Current Liabilities	<u>29,397.99</u>
NET POSITION:	
Net Investment in Capital Assets	42,101.08
Unrestricted Net Position	<u>9,936.78</u>
TOTAL NET POSITION	<u>\$ 52,037.86</u>

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

CANTON SCHOOL DISTRICT NO. 41-1
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	<u>Food Service Fund</u>
Operating Revenue:	
Food Sales:	
To Pupils	\$ 177,677.57
To Adults	10,177.20
A la Carte	6,691.95
Other Charges for Goods and Services	<u>725.29</u>
Total Operating Revenue	<u>195,272.01</u>
Operating Expenses:	
Food Service:	
Purchased Services	306,819.97
Supplies	1,536.89
Cost of Sales-Donated Food	17,342.82
Depreciation	<u>6,724.51</u>
Total Operating Expenses	<u>332,424.19</u>
Operating Income (Loss)	<u>(137,152.18)</u>
Nonoperating Revenue (Expense):	
State Sources:	
Other Cash Payments	1,718.77
Federal Sources:	
Cash Reimbursements	128,418.58
Donated Food	<u>17,342.82</u>
Total Nonoperating Revenue (Expense)	<u>147,480.17</u>
Change in Net Position	10,327.99
Net Position- Beginning	<u>41,709.87</u>
NET POSITION - ENDING	<u><u>\$ 52,037.86</u></u>

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

CANTON SCHOOL DISTRICT NO. 41-1
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
JUNE 30, 2014

	<u>Food Service Fund</u>
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 232,127.92
Payments to Suppliers	<u>(319,189.40)</u>
Net Cash Provided (Used) by Operating Activities	<u>(87,061.48)</u>
Cash Flows from Noncapital Financing Activities:	
Amount from Other Funds	(6,475.23)
Operating Subsidies	<u>130,137.35</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>123,662.12</u>
Cash Flows from Capital and Related Financing Activities:	
Purchase of Capital Assets	<u>(1,787.16)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 34,813.48</u>
Cash and Cash Equivalents at Beginning of Year	\$ 26.60
Cash and Cash Equivalents at End of Year	<u>34,840.08</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 34,813.48</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income (Loss)	\$(137,152.18)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	6,724.51
Value of Commodities Used	17,342.82
Change in Assets and Liabilities:	
Accounts Payable	(10,832.54)
Accounts Receivable	35,268.21
Revenue Received in Advance	<u>1,587.70</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (87,061.48)</u>
Noncash Investing, Capital and Financing Activities:	
Value of Commodities Received	\$ 17,342.82

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

CANTON SCHOOL DISTRICT NO. 41-1
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	Agency Funds
ASSETS:	
Cash and Cash Equivalents	\$ 92,039.41
TOTAL ASSETS	92,039.41
LIABILITIES:	
Accounts Payable	18.50
Amounts Held for Others	92,020.91
TOTAL LIABILITIES	\$ 92,039.41

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

**CANTON SCHOOL DISTRICT NO. 41-1
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity

The reporting entity of Canton School District No. 41-1, consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

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

b. Basis of Presentation

Government-wide Financial Statements:

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

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

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

Fund Financial Statements:

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

proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the School District or it meets the following criteria:

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

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

Governmental Funds:

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

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

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

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

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 School 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.

The 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. The Bond Redemption Fund is the only debt service fund maintained by the School District. This is a major fund.

Proprietary Funds:

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

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.)
- b. Laws or regulations require that the activity’s costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

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

Fiduciary Funds:

Fiduciary Funds are never considered to be major funds.

Agency Funds - agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The School District maintains agency funds for the following purposes: class funds, student organizations, and clearing accounts.

c. Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

Government-wide Financial Statements:

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

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Canton School District No. 41-1, the length of that cycle is 60 days. The revenues that were accrued at June 30, 2014 are accounts receivable from various sources.

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

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

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

d. Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

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

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

e. Deposits and Investments:

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

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

f. Capital Assets:

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

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

Government-Wide Financial Statements

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

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

The total June 30, 2014 balance of capital assets for governmental activities includes approximately 1.72% for which the costs were determined by estimates of original costs. The total June 30, 2014 balance of capital assets for business-type activities are valued at original cost. These estimated original costs were established by prior records at cost or historical costs.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	ALL	NA	NA
Improvements	\$ 10,000.00	Straight Line	15-25 yrs
Buildings	20,000.00	Straight Line	50 yrs
Equipment and Vehicles	2,500.00	Straight Line	5-20 yrs
Food Service Machinery and Equipment	1,000.00	Straight Line	5-20 yrs

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements

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

g. Long-Term Liabilities:

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

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

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

h. Program Revenues

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

i. Proprietary Funds Revenue and Expense Classifications:

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

j. Cash and Cash Equivalents:

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

purpose of the Statement of Cash Flows.

k. Equity Classifications

Government-wide Financial Statements:

Equity is classified as Net Position and is displayed in three components

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and is distinguish 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.

l. Application of Net Position:

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

m. Deferred Inflows and Deferred Outflows of Resources:

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

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

n. Fund Balance Classification Policies and Procedures:

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

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

- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the School Board.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

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

A schedule of fund balances is provided as follows:

**CANTON SCHOOL DISTRICT NO. 41-1
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Total Governmental Funds
Fund Balances:						
<i>Restricted for:</i>						
Capital Outlay	\$	\$ 449,446.48	\$	\$	\$	\$ 449,446.48
Pension				195,081.86		195,081.86
Debt Service					361,024.96	361,024.96
<i>Assigned to:</i>						
Unemployment	127,226.63					127,226.63
Subsequent Budget	432,919.00					432,919.00
<i>Unassigned</i>	<u>2,343,083.24</u>		<u>(30,368.53)</u>			<u>2,312,714.71</u>
Total Fund Balances	<u>\$ 2,903,228.87</u>	<u>\$ 449,446.48</u>	<u>\$ (30,368.53)</u>	<u>\$ 195,081.86</u>	<u>\$ 361,024.96</u>	<u>\$ 3,878,413.64</u>

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

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

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

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

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

Concentration of Credit Risk – The School District places no limit on the amount that may be invested in any one issuer.

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

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from investments to the General Fund except for the Food Service Fund. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Investment earnings are not material to the individual funds.

NOTE 3 – RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year. No allowance has been made for estimated uncollectible amounts.

NOTE 4 - INVENTORY

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

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

In the governmental fund financial statements, inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are

consumed. No material inventories were on hand as of June 30, 2014 in the governmental funds.

NOTE 5 - PROPERTY TAXES

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

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

NOTE 6 - CHANGES IN CAPITAL ASSETS

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

Primary Government	Balance 06/30/13	Increases	Decreases	Balance 06/30/14
Governmental Activities:				
Capital Assets, not depreciated:				
Land	\$ 148,509.75	\$	\$	\$ 148,509.75
Capital Assets, depreciated:				
Improvements	1,799,546.61	7,889.00		1,807,435.61
Buildings	13,486,155.18			13,486,155.18
Machinery and Equipment	1,253,755.92	81,381.32		1,335,137.24
Totals	16,539,457.71	89,270.32		16,628,728.03
Less Accumulated Depreciation:				
Improvements	1,104,274.82	77,797.04		1,182,071.86
Buildings	4,203,028.39	264,122.18		4,467,150.57
Machinery and Equipment	933,946.66	67,603.00		1,001,549.66
Total Accumulated Depreciation	6,241,249.87	409,522.22		6,650,772.09
Total Capital Assets, being depreciated, net	10,298,207.84	(320,251.90)		9,977,955.94
Governmental Activities Capital Assets, net	\$ 10,446,717.59	\$ (320,251.90)	\$	\$ 10,126,465.69

**Depreciation expense was charged to functions as follows:

Governmental Activities:	
Instruction	\$ 278,475.11
Support Services	131,047.11
Total Depreciation expense-governmental activities	\$ 409,522.22

	Balance 06/30/13	Increases	Decreases	Balance 06/30/14
Business Type Activities:				
Capital Assets, depreciated:				
Machinery and Equipment	\$ 129,708.00	\$ 1,787.16	\$	\$ 131,495.16
Less Accumulated Depreciation:				
Machinery and Equipment	<u>82,669.57</u>	<u>6,724.51</u>	<u></u>	<u>89,394.08</u>
Business-type activity				
capital assets, net	<u>\$ 47,038.43</u>	<u>\$ (4,937.35)</u>	<u>\$</u>	<u>\$ 42,101.08</u>

Depreciation expense was charged to functions as follows:

Business-type Activity	
Total Depreciation expense-business-type activities	<u>\$ 6,724.51</u>

NOTE 7 - LONG -TERM LIABILITIES

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

Primary Government

Governmental Activities:	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds Payable:					
General Obligation Bonds	\$ 1,220,000.00	\$	\$ 470,000.00	\$ 750,000.00	\$ 480,000.00
Limited Tax GO Certificates	2,305,000.00		165,000.00	2,140,000.00	170,000.00
Early Retirement Payable	30,000.00		30,000.00		
Accrued Compensated					
Absences	<u>28,934.13</u>	<u>31,665.30</u>	<u>35,131.16</u>	<u>25,468.27</u>	<u>7,640.48</u>
Total Governmental					
Activities	<u>\$ 3,583,934.13</u>	<u>\$ 31,665.30</u>	<u>\$ 700,131.16</u>	<u>\$ 2,915,468.27</u>	<u>\$ 657,640.48</u>

Compensated absences for governmental activities typically have been liquidated from the General Fund and Special Education Fund. Early Retirement Benefits payable for governmental activities typically have been liquidated from the Pension Fund.

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

Primary Government

Governmental Activities:

General Obligation Bonds Payable:

Series 2009 Refunding Bonds dated March 1, 2009 Interest rates of 1.2 to 2.65%, depending on length to maturity; interest payable semi-annually. Final maturity is December 2015. Payments to be made from Bond Redemption Fund. \$ 750,000.00

Limited Tax General Obligation Payable:

Series 2010A Limited Tax General Obligation Certificates dated June 15, 2010 Interest rates of 2.000% to 4.000%, depending on length to maturity; interest payable semi-annually. Final maturity is June 2025. Payments to be made from Capital Outlay Fund 2,140,000.00

Compensated Absences:

Vested annual leave. Payments are made from the General Fund. 25,468.27

The annual debt service requirements to maturity for all debt outstanding, other than compensated absences and early retirement, as of June 30, 2014 are as follows:

Year Ending June 30,	2009 G.O. Bonds		2010A Limited Tax G. O. Certificates		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
	2015	\$ 480,000.00	\$ 12,915.00	\$ 170,000.00	\$ 71,530.00	\$ 650,000.00
2016	270,000.00	3,577.50	175,000.00	67,790.00	445,000.00	71,367.50
2017			175,000.00	63,415.00	175,000.00	63,415.00
2018			180,000.00	58,602.50	180,000.00	58,602.50
2019-2023			1,000,000.00	200,355.00	1,000,000.00	200,355.00
2024-2028			440,000.00	26,087.50	440,000.00	26,087.50
Totals	<u>\$ 750,000.00</u>	<u>\$ 16,492.50</u>	<u>\$ 2,140,000.00</u>	<u>\$ 487,780.00</u>	<u>\$ 2,890,000.00</u>	<u>\$ 504,272.50</u>

NOTE 8 – OPERATING LEASES

The School District is obligated under certain leases accounted for as operating leases. The School District leases 6 copy machines. Operating leases do not give rise to property rights or lease obligation. Payments of \$1,566.90 are made monthly from the Capital Outlay Fund.

The following are the minimum payments on the existing operating leases:

Year	Capital Outlay
	Amount
2015	\$ 17,235.90

NOTE 9 – RESTRICTED NET POSITION

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

<u>Major Purposes</u>	<u>Restricted by</u>	<u>Amount</u>
Capital Outlay Purposes	Law	\$ 464,910.49
Debt Service Purposes	Debt Covenants	367,674.98
Pension Purposes	Law	196,915.63
Total Restricted Net Position		<u>\$ 1,029,501.10</u>

NOTE 10 – RETIREMENT PLAN

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and 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 by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$224,323.45, \$217,132.43, and \$217,316.49, respectively, equal to the required contributions each year.

NOTE 11 – RELATED PARTY TRANSACTIONS

The School District currently has a board member who is the owner of Prairie View Prevention Services for which the sum of \$4,666.62 was paid for services during fiscal year 2014. This contract falls within the provisions of SDCL 6-1-2.2.

NOTE 12 - JOINT VENTURES

The School District participates in the Southeast Area Cooperative, a cooperative service unit (co-op) formed for the purpose of providing public support services to the member school districts.

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

Alcester-Hudson	9.06%
Beresford	18.60%
Canton	25.00%
Elk Point-Jefferson	19.96%
Gayville-Volin	7.95%
Irene-Wakonda	8.75%
Viborg-Hurley	10.68%

The co-op's governing board is composed of one school board member representative from each

member school district. The board is responsible for adopting the co-op's budget and for setting service fees at a level adequate to fund the adopted budget. The school district retains no equity in the net position of the co-op, but does have a responsibility to fund deficits of the co-op in proportion to the relative participation described above. Separate financial statements for this joint venture are available from the Southeast Area Cooperative.

At June 30, 2014, this joint venture had total assets of \$394,839.13, total liabilities of \$152,614.69, and net position of \$242,224.44.

NOTE 13 - RISK MANAGEMENT

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

Employee Health Insurance

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

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

Liability Insurance

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

Worker's Compensation

The school district participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provided workers' compensation insurance coverage for participating members of the pool. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The School District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The school district may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the

pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to \$1,000,000 per individual per incident.

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

Unemployment Benefits

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

The School District has an assigned fund balance in the General Fund in the amount of \$127,226.63 for the payment of future unemployment benefits.

During the year ended June 30, 2014, three claims were filed for unemployment benefits. Two of these claims resulted in the payment of benefits in the amount of \$2,400.16. As of June 30, 2014, there were no outstanding claims for unemployment benefits. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

NOTE 14 – EARLY RETIREMENT PLAN

The Canton School District has an early retirement plan in effect. The criteria to determine eligibility includes years of service and employee age. Under the plan, the district will pay 80% of the current salary on contract. During the fiscal year 2014, one employee participated in the program and was paid \$30,000.00.

NOTE 15 – SIGNIFICANT CONTINGENCIES - LITIGATION

At June 30, 2014, the school district was not involved in any litigation.

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REQUIRED SUPPLEMENTARY INFORMATION
CANTON SCHOOL DISTRICT NO. 41-1
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
JUNE 30, 2014

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 1,715,386.00	\$ 1,715,386.00	\$ 1,766,501.89	\$ 51,115.89
Prior Years' Ad Valorem Taxes	30,000.00	30,000.00	25,730.24	(4,269.76)
Utility Taxes	178,000.00	178,000.00	186,683.02	8,683.02
Penalties and Interest on Taxes	6,000.00	6,000.00	6,280.72	280.72
Earnings on Investments/ Deposits	18,000.00	18,000.00	43,745.05	25,745.05
Cocurricular Activities:				
Admissions	36,000.00	36,000.00	46,711.65	10,711.65
Pupil Organization Membership	8,000.00	8,000.00	8,077.00	77.00
Other Pupil Activity Income	4,000.00	4,000.00	6,044.00	2,044.00
Other Revenue from Local Sources:				
Rentals	1,000.00	1,000.00	2,260.00	1,260.00
Contributions	22,000.00	22,000.00	22,365.85	365.85
Judgements				
Charges for Services	25,000.00	25,000.00	33,778.76	8,778.76
Other			6,013.46	6,013.46
Revenue from Intermediate Sources:				
County Sources:				
County Apportionment	30,000.00	30,000.00	24,933.12	(5,066.88)
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	2,330,885.00	2,330,885.00	2,354,090.15	23,205.15
Restricted Grants-in-Aid	15,000.00	15,000.00	13,750.80	(1,249.20)
Revenue from Federal Sources:				
Restricted Grants-in-Aid Received from Federal Government through the State	173,237.00	173,237.00	184,837.00	11,600.00
Total Revenue	<u>4,592,508.00</u>	<u>4,592,508.00</u>	<u>4,731,802.71</u>	<u>139,294.71</u>
Expenditures:				
Instruction:				
Regular Programs:				
Elementary School	1,051,909.00	1,051,909.00	1,103,923.73	(52,014.73)
Middle/Junior High	483,006.00	483,006.00	504,183.43	(21,177.43)
High School	774,816.00	774,816.00	716,862.66	57,953.34
Special Programs:				
Educationally Deprived	136,825.00	136,825.00	141,682.29	(4,857.29)
Other Special Programs	60,729.00	60,729.00	49,138.23	11,590.77

**REQUIRED SUPPLEMENTARY INFORMATION
CANTON SCHOOL DISTRICT NO. 41-1
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
JUNE 30, 2014**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Support Services:				
Pupils:				
Attendance and Social Work	54,256.00	54,256.00	52,337.11	1,918.89
Guidance	128,007.00	128,007.00	108,885.97	19,121.03
Health	43,399.00	43,399.00	42,618.15	780.85
Support Services - Instructional Staff:				
Improvement of Instruction	33,230.00	33,230.00	14,713.34	18,516.66
Educational Media	164,859.00	164,859.00	157,181.84	7,677.16
Support Services - General Administration:				
Board of Education	124,639.00	124,639.00	107,210.55	17,428.45
Executive Administration	153,359.00	153,359.00	152,999.78	359.22
Support Services - School Administration:				
Office of the Principal	276,335.00	276,335.00	272,017.49	4,317.51
Other	2,500.00	2,500.00	1,280.24	1,219.76
Support Services - Business:				
Fiscal Services	171,225.00	171,225.00	163,747.76	7,477.24
Operation and Maintenance of Plant	824,815.00	824,815.00	797,732.22	27,082.78
Internal Services	18,900.00	18,900.00	19,039.30	(139.30)
Cocurricular Activities:				
Male Activities	73,594.00	73,594.00	76,995.58	(3,401.58)
Female Activities	41,029.00	41,029.00	42,150.61	(1,121.61)
Combined Activities	<u>319,565.00</u>	<u>319,565.00</u>	<u>305,918.66</u>	<u>13,646.34</u>
Total Expenditures	<u>4,936,997.00</u>	<u>4,936,997.00</u>	<u>4,830,618.94</u>	<u>106,378.06</u>
Net Change in Fund Balances	(344,489.00)	(344,489.00)	(98,816.23)	245,672.77
Fund Balance - July 1, 2013	<u>3,002,045.10</u>	<u>3,002,045.10</u>	<u>3,002,045.10</u>	<u> </u>
FUND BALANCE - JUNE 30, 2014	<u>\$ 2,657,556.10</u>	<u>\$ 2,657,556.10</u>	<u>\$ 2,903,228.87</u>	<u>\$ 245,672.77</u>

REQUIRED SUPPLEMENTARY INFORMATION
CANTON SCHOOL DISTRICT NO. 41-1
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL OUTLAY FUND
JUNE 30, 2014

	<u>Budgeted Amounts</u>		Actual	Variance
	<u>Original</u>	<u>Final</u>	(Budgetary	Positive
			Basis)	(Negative)
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 1,127,423.00	\$ 1,127,423.00	\$ 1,167,591.03	\$ 40,168.03
Prior Years' Ad Valorem Taxes	6,000.00	6,000.00	14,608.85	8,608.85
Penalties and Interest on Taxes	2,000.00	2,000.00	2,243.35	243.35
Other Revenue from Local Sources:				
Contributions and Donations	3,000.00	3,000.00	10,284.40	7,284.40
Total Revenue	<u>1,138,423.00</u>	<u>1,138,423.00</u>	<u>1,194,727.63</u>	<u>56,304.63</u>
Expenditures:				
Instruction				
Regular programs:				
Elementary	69,000.00	69,000.00	30,125.24	38,874.76
Middle/Junior High	42,000.00	42,000.00	32,733.13	9,266.87
High School	23,500.00	23,500.00	22,994.57	505.43
Special Programs:				
Special Education	4,000.00	4,000.00	1,854.95	2,145.05
Support Services-Pupils:				
Guidance	250.00	250.00	145.20	104.80
Support Services-Instructional Staff:				
Educational Media	61,000.00	61,000.00	3,034.13	57,965.87
Support Services - Business:				
Fiscal Services	1,000.00	1,000.00	293.15	706.85
Facilities Acquisition and Construction	13,250.00	13,250.00	6,385.00	6,865.00
Operation and Maintenance of Plant	262,000.00	262,000.00	214,226.35	47,773.65
Pupil Transportation	250,000.00	250,000.00	250,000.00	
Food Services	10,000.00	10,000.00	273.11	9,726.89
Debt Services	239,830.00	239,830.00	240,760.00	(930.00)
Cocurricular Activities:				
Male Activities	22,686.00	22,686.00	23,411.42	(725.42)
Female Activities	530.00	530.00	2,825.71	(2,295.71)
Combined Activities	9,644.00	9,644.00	8,891.00	753.00
Total Expenditures	<u>1,008,690.00</u>	<u>1,008,690.00</u>	<u>837,952.96</u>	<u>170,737.04</u>
Excess of Revenue Over (Under)				
Expenditures	129,733.00	129,733.00	356,774.67	227,041.67
Other Financing Sources:				
Sales of Surplus Property			5,851.00	5,851.00
Net Change in Fund Balances	129,733.00	129,733.00	362,625.67	232,892.67
Fund Balance - July 1, 2013	<u>86,820.81</u>	<u>86,820.81</u>	<u>86,820.81</u>	
FUND BALANCE - JUNE 30, 2014	<u>\$ 216,553.81</u>	<u>\$ 216,553.81</u>	<u>\$ 449,446.48</u>	<u>\$ 232,892.67</u>

**REQUIRED SUPPLEMENTARY INFORMATION
CANTON SCHOOL DISTRICT NO. 41-1
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SPECIAL EDUCATION FUND
JUNE 30, 2014**

	<u>Budgeted Amounts</u>		Actual	Variance
	<u>Original</u>	<u>Final</u>	(Budgetary Basis)	Positive (Negative)
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 620,645.00	\$ 620,645.00	\$ 670,309.14	\$ 49,664.14
Prior Years' Ad Valorem Taxes	8,000.00	8,000.00	8,023.99	23.99
Penalties and Interest on Taxes	1,200.00	1,200.00	1,250.86	50.86
Other Revenue from Local Sources:				
Charges for Services	36,000.00	36,000.00	49,820.09	13,820.09
Revenue from State Sources:				
Restricted Grants-in-Aid	<u>384,111.00</u>	<u>384,111.00</u>	<u>236,150.00</u>	<u>(147,961.00)</u>
Total Revenue	<u>1,049,956.00</u>	<u>1,049,956.00</u>	<u>965,554.08</u>	<u>(84,401.92)</u>
Expenditures:				
Special Programs:				
Programs for Special Education	803,934.00	803,934.00	805,904.26	(1,970.26)
Support Services				
Pupils:				
Psychological			5,617.00	(5,617.00)
Speech Pathology			24,665.75	(24,665.75)
Student Therapy Services	59,000.00	59,000.00	57,916.04	1,083.96
Support Services - Special Education				
Administrative Costs	87,949.00	87,949.00	97,055.49	(9,106.49)
Transportation Costs	34,573.00	34,573.00	39,318.36	(4,745.36)
Other Special Education Costs	<u>64,500.00</u>	<u>64,500.00</u>	<u>1,800.00</u>	<u>62,700.00</u>
Total Expenditures	<u>1,049,956.00</u>	<u>1,049,956.00</u>	<u>1,032,276.90</u>	<u>17,679.10</u>
Net Change in Fund Balances			(66,722.82)	(66,722.82)
Fund Balance - July 1, 2013	<u>36,354.29</u>	<u>36,354.29</u>	<u>36,354.29</u>	
FUND BALANCE - JUNE 30, 2014	<u>\$ 36,354.29</u>	<u>\$ 36,354.29</u>	<u>\$ (30,368.53)</u>	<u>\$ (66,722.82)</u>

**REQUIRED SUPPLEMENTARY INFORMATION
CANTON SCHOOL DISTRICT NO. 41-1
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
PENSION FUND
JUNE 30, 2014**

	<u>Budgeted Amounts</u>		Actual	Variance
	<u>Original</u>	<u>Final</u>	(Budgetary Basis)	Positive (Negative)
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 130,589.00	\$ 130,589.00	\$ 135,242.30	\$ 4,653.30
Prior Years' Ad Valorem Taxes	2,000.00	2,000.00	1,718.68	(281.32)
Penalties and Interest on Taxes	<u>200.00</u>	<u>200.00</u>	<u>267.28</u>	<u>67.28</u>
Total Revenue	<u>132,789.00</u>	<u>132,789.00</u>	<u>137,228.26</u>	<u>4,439.26</u>
Expenditures:				
Instruction:				
Elementary	50,466.00	50,466.00	52,480.39	(2,014.39)
Middle/Junior High	23,534.00	23,534.00	23,674.68	(140.68)
High School	35,136.00	35,136.00	32,862.08	2,273.92
Support Services - General Administration:				
Executive Administration	7,173.00	7,173.00	7,173.24	(0.24)
Support Services - School Administration:				
Office of the Principal	12,514.00	12,514.00	12,513.69	0.31
Nonprogrammed Charges:				
Early Retirement Payments	<u>30,000.00</u>	<u>30,000.00</u>	<u>30,000.00</u>	<u> </u>
Total Expenditures	<u>158,823.00</u>	<u>158,823.00</u>	<u>158,704.08</u>	<u>118.92</u>
Net Change in Fund Balances	(26,034.00)	(26,034.00)	(21,475.82)	4,558.18
Fund Balance - July 1, 2013	<u>216,557.68</u>	<u>216,557.68</u>	<u>216,557.68</u>	<u> </u>
FUND BALANCE - JUNE 30, 2014	<u>\$ 190,523.68</u>	<u>\$ 190,523.68</u>	<u>\$ 195,081.86</u>	<u>\$ 4,558.18</u>

CANTON SCHOOL DISTRICT NO. 41-1
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
Schedules of Budgetary Comparisons for the General Fund
And for each major Special Revenue Fund with a legally required budget

NOTE 1 – BUDGETS AND BUDGETARY ACCOUNTING

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

1. Prior to the first regular board meeting in May of each year the board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.
6. After adoption by the board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the board to any other budget category, except for capital outlay, that is deemed insufficient during the year. No amount of expenditures may be charged directly to the contingency line item in the budget.
8. If it is determined, during the year, that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and each major special revenue fund.
11. Budgets for the General Fund and each major special revenue fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

NOTE 2 – GAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES

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

QUAM & BERGLIN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
110 WEST MAIN – P.O. BOX 426
ELK POINT, SOUTH DAKOTA 57025

(605) 356-3374

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

School Board
Canton School District No. 41-1
Lincoln County, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Canton School District No. 41-1, Lincoln County, South Dakota, as of June 30, 2014 and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated November 17, 2014, which was qualified because long-term financial obligations and commitments related to other postemployment benefits was not recorded..

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Current Audit Findings that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

School District's Response to Findings

Canton School District's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings. The School 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 School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Quam & Berglin, P.C.

Quam & Berglin, P.C.
Certified Public Accountants
Elk Point, SD

November 17, 2014

**CANTON SCHOOL DISTRICT NO. 41-1
SCHEDULE OF AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

PRIOR AUDIT FINDINGS:

Prior Finding Number 2013-01:

A material weakness was reported for a lack of segregation of duties for revenues. This comment results from the size of the district, which precludes staffing at a level sufficient to provide an ideal environment for internal control. This finding has not been corrected and is being restated as a significant deficiency under current audit finding number 2014-01.

CURRENT AUDIT FINDING:

Internal Control-Related Findings - Significant Deficiency:

Audit Finding Number 2014-01:

There is a significant deficiency resulting from a lack of segregation of duties for revenues.

Criteria:

In order to achieve proper internal control, it is necessary to have segregation of duties provided between performance, review and record keeping of the tasks related to revenues. Lack of this segregation of duties could adversely affect the organization's ability to record, process, summarize and report financial data consistent with management assertions.

Condition, Cause and Effect:

The size of the accounting staff employed by the entity precludes an adequate segregation of duties.

Recommendation:

We recommend that Canton School District officials be cognizant of this lack of segregation of duties of revenues and attempt to provide compensating controls, whenever and wherever possible and practical.

Corrective Action Plan:

The Board of Education has prepared a response to the audit finding and that response is found in the Corrective Action Plan found in the Table of Contents.



Canton School District 41-1

800 N. Main St., Canton, SD 57013
Phone (605) 764-2706 Fax (605) 764-2700
www.canton.k12.sd.us

CORRECTIVE PLAN OF ACTION

JUNE 30, 2014

Canton School District No. 41-1 has considered the lack of segregation of duties for the revenues function. At this time it is not cost effective for Canton School District to hire the additional staff needed to achieve segregation of duties. Alternate procedures have been implemented by Canton School District to decrease the likelihood that financial data is adversely affected.

The Canton School District's Board will continue to monitor the necessity to have segregation of duties for revenues and implement such a segregation as budget dollars and board authority allow.



Superintendent



Business Manager