

**CUSTER SCHOOL DISTRICT
NO. 16-1**

INDEPENDENT AUDITOR'S REPORTS,
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2014



RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

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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
Custer School District No. 16-1

We have audited, in accordance with the 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 Custer School District No. 16-1, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Custer School District No. 16-1's basic financial statements and have issued our report thereon dated December 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Custer School District No. 16-1'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 Custer School District No. 16-1's internal control. Accordingly, we do not express an opinion on the effectiveness of Custer School District No. 16-1'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 findings and questioned costs, 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Custer School District No. 16-1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2014-002 and 2014-003.

Custer School District No. 16-1's Response to Findings

Custer School District No. 16-1's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Custer School District No. 16-1'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 Custer School District No. 16-1's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Custer School District No. 16-1'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.



Casey Peterson & Associates, LTD

Rapid City, South Dakota

December 12, 2014



Independent Auditor's Report on Compliance for
Each Major Program and on Internal Control
Over Compliance Required by OMB Circular A-133

Board of Directors
Custer School District No. 16-1
Custer, South Dakota

Report on Compliance for Each Major Federal Program

We have audited Custer School District No. 16-1's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of Custer School District No. 16-1's major federal programs for the year ended June 30, 2014. Custer School District No. 16-1's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Custer School District No. 16-1's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Custer School District No. 16-1's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Custer School District No. 16-1's compliance.

Opinion on Each Major Federal Program

In our opinion, Custer School District No. 16-1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-003. Our opinion on each major federal program is not modified with respect to this matter.

Custer School District No. 16-1's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Custer School District No. 16-1's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Custer School District No. 16-1 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Custer School District No. 16-1's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Custer School District No. 16-1's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-002 and 2014-003 to be material weaknesses.

Custer School District No. 16-1's response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. Custer School District No. 16-1's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report 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.



Casey Peterson & Associates, LTD

Rapid City, South Dakota

December 12, 2014

Custer School District No. 16-1
Schedule of Findings and Questioned Costs
June 30, 2014

SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS

- a. The independent auditor's report expressed unmodified opinions on the financial statements of Custer School District No. 16-1.
- b. A material weakness relating to the audit of the financial statements was reported in the 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*.
- c. Noncompliance material to the financial statements of the District is disclosed within this schedule.
- d. Unmodified opinions were issued on compliance with requirements applicable to the major federal programs.
- e. Material weaknesses in internal control related to major federal programs were reported in the Independent Auditor's Report on Compliance with Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133.
- f. Audit findings that are required to be reported in accordance with section 510(a) of OMB Circular A-133 are reported in this schedule.
- g. The federal awards tested as major programs were:
 - Child Nutrition Cluster:
 - Non-cash Assistance (Commodities):
 - National School Lunch Program, CFDA # 10.555
 - Cash Assistance:
 - School Breakfast Program, CFDA # 10.553
 - National School Lunch Program, CFDA # 10.555
 - Special Education Cluster:
 - Special Education - Grants to States, CFDA# 84.027
 - Special Education - Preschool Grants, CFDA# 84.173
 - Title I, CFDA #84.010
- h. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$300,000.
- i. Custer School District No. 16-1 did not qualify as a low risk auditee.

FINDINGS - FINANCIAL STATEMENTS AUDIT

Material Weakness

Internal Controls Related to Drafting Financial Statements and Year-end Accrual Entries

2014-001 *Criteria:* The District should have an internal control system designed to provide for drafting the financial statements being audited and performing oversight of year-end accrual entries.

Condition: The small size of the District limits the ability of the business office to prepare financial statements being audited and perform year-end accrual entries which would be required under a properly designed system of internal controls. This finding was reported in 2013.

Effect: The District engages their auditor to draft the financial statements and the notes to the financial statements. The business manager performs closing entries with limited oversight. The possibility of fraud or errors occurring and not being detected or corrected is present.

Custer School District No. 16-1
Schedule of Findings and Questioned Costs
June 30, 2014

Cause: This condition exists due to small staff size within the finance function of the District. These issues are common in a district of this size.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the District's auditors drafting the financial statements and the business manager performing entries without proper oversight, because of cost or other considerations. If the District chooses not to accept this risk, training should be provided to those employees responsible for drafting the financial statements and related notes or reviewing year-end accrual entries.

Management's Response: This is common practice for schools of similar size, and management feels comfortable with this practice. The District does accept the risk associated with the District's auditors drafting the financial statements and related notes. Also, the District will implement suggested controls wherever cost effective for the District.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

**U.S. DEPARTMENT OF EDUCATION & U.S. DEPARTMENT OF AGRICULTURE
ALL MAJOR PROGRAMS**

Material Weakness

Internal Controls Over Federal Awards

2014-002 See Finding 2014-001 for a description of the condition and criteria, effect, cause, auditor's recommendation, and managements response.

**U.S. DEPARTMENT OF AGRICULTURE
CHILD NUTRITION CLUSTER**

School Breakfast Program, CFDA #10.553
National School Lunch Program, CFDA #10.555
Grant Year Ending June 30, 2014

Material Weakness

Eligibility - Determination of Student Meal Status

2014-003 *Criteria:* A child's eligibility for free or reduced price meals under a Child Nutrition Cluster program may be established by the submission of an annual application or statement which furnishes such information as family income and family size. Local educational agencies (LEAs), institutions, and sponsors determine eligibility by comparing the data reported by the child's household to published income eligibility guidelines.

Condition: The District did not have a control in place to provide for proper oversight of this determination.

Effect: We noted four instances in a sample of 68 of noncompliance in determination of eligibility in accordance with the program. In two of the instances, the income verified on an application did not include any income received on behalf of the children. In one instance the eligibility was incorrectly calculated, resulting in the family paying reduced rates when their income exceeded the maximum allowed. In the fourth instance, the calculation of income contained mathematical errors; but the resulting eligibility determination was still proper. We reviewed subsequent applications for the same families noting the errors had been noted by the District and corrected for the next period.

Custer School District No. 16-1
Schedule of Findings and Questioned Costs
June 30, 2014

Cause: In all instances where exceptions were noted, the application was certified by a former employee of the District. The former employee was not adequately trained on the requirements for eligibility under the grant. We reviewed subsequent applications for the same families for the fiscal year in progress which had been completed by a new employee of the District. It appears controls over eligibility have improved for the fiscal year 2015 and the issues noted in fiscal year 2014 were resolved by the District in the fiscal year 2015.

Auditor's Recommendation: We recommend the client review controls to ensure they are sufficient to correct the errors identified and any necessary training be provided to staff responsible for determining eligibility.

Management's Response: As noted in the audit report, these errors occurred during a time of employee turn-over in the business office, and the former employee is no longer working for the district. Presently, all applications for free and reduced meals are being reviewed by more than one person, and the District is making every attempt to ensure accuracy.

Custer School District No. 16-1
Schedule of Prior Findings and Questioned Costs
June 30, 2014

PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF EDUCATION & U.S. DEPARTMENT OF AGRICULTURE

2013-001 *Condition and Criteria:* The District does not have an internal control system designed to provide for drafting the financial statements being audited which is required under a properly designed system of internal controls.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the District's auditors drafting the financial statements, because of cost or other considerations. If the District chooses not to accept this risk, training should be provided to those employees responsible for drafting the financial statements and related notes.

Current Status: This finding is reported as 2014-001 in the current year.

Custer School District No. 16-1
Corrective Action Plan
June 30, 2014

Custer School District No. 16-1 respectfully submits the following corrective action plan for the year ended June 30, 2014.

Name and address of independent public accounting firm:

Casey Peterson & Associates, LTD
909 St. Joseph St., Ste 101
Rapid City, SD 57701

The findings from the 2014 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FINANCIAL STATEMENTS AUDIT

Material Weakness

Internal Controls Related to Drafting Financial Statements and Year-end Accrual Entries

2014-001 *Criteria:* The District should have an internal control system designed to provide for drafting the financial statements being audited and performing oversight of year-end accrual entries.

Condition: The small size of the District limits the ability of the business office to prepare financial statements being audited and perform year-end accrual entries which would be required under a properly designed system of internal controls. This finding was reported in 2013.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the District's auditors drafting the financial statements and the business manager performing entries without proper oversight, because of cost or other considerations. If the District chooses not to accept this risk, training should be provided to those employees responsible for drafting the financial statements and related notes or reviewing year-end accrual entries.

Management's Response: This is common practice for schools of similar size, and management feels comfortable with this practice. The District does accept the risk associated with the District's auditors drafting the financial statements and related notes. Also, the District will implement suggested controls wherever cost effective for the District.

FINDINGS - FEDERAL AWARDS AUDIT

U.S. DEPARTMENT OF EDUCATION & U.S. DEPARTMENT OF AGRICULTURE
ALL MAJOR PROGRAMS

Material Weakness

Internal Controls Over Federal Awards

2014-002 Condition and criteria as well as management's response are identical to that of finding 2014-001 above.

Custer School District No. 16-1
Corrective Action Plan
June 30, 2014

U.S. DEPARTMENT OF AGRICULTURE
CHILD NUTRITION CLUSTER

School Breakfast Program, CFDA #10.553
National School Lunch Program, CFDA #10.555
Grant Year Ending June 30, 2014

Material Weakness

Eligibility - Determination of Student Meal Status

2014-003 *Criteria:* A child's eligibility for free or reduced price meals under a Child Nutrition Cluster program may be established by the submission of an annual application or statement which furnishes such information as family income and family size. Local educational agencies (LEAs), institutions, and sponsors determine eligibility by comparing the data reported by the child's household to published income eligibility guidelines.

Condition: The District did not have a control in place to provide for proper oversight of this determination.

Auditor's Recommendation: We recommend the client review controls to ensure they are sufficient to correct the errors identified and any necessary training be provided to staff responsible for determining eligibility.

Management's Response: As noted in the audit report, these errors occurred during a time of employee turn-over in the business office, and the former employee is no longer working for the district. Presently, all applications for free and reduced meals are being reviewed by more than one person, and the District is making every attempt to ensure accuracy.

If there are questions regarding this plan, please call Lisa Fluck, Business Manager at 605-673-3154.

Sincerely yours,

Lisa Fluck, Business Manager

Custer School District No. 16-1
Custer, South Dakota



Independent Auditor's Report

School Board
Custer School District No. 16-1
Custer, 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 Custer School District No. 16-1, as of and for the year the ended June 30, 2014 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

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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Custer School District No. 16-1, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the schedule of funding progress for retiree health insurance coverage, on pages 17 - 25 and 72 - 81, and 83 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Custer School District No. 16-1's basic financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The corrective action plan and list of School District Officials on pages 11 - 12 and 87, respectively, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on the information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2014 on our consideration of Custer School District No. 16-1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Custer School District No. 16-1's internal control over financial reporting and compliance.



Casey Peterson & Associates, LTD

Rapid City, South Dakota

December 12, 2014

Custer School District No. 16-1
Management's Discussion and Analysis (Unaudited)
June 30, 2014

This section of Custer School District No. 16-1's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2014. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the 13-14 fiscal year, the District's revenues generated from taxes and other revenues of the governmental and business-type programs were \$1,199,726 more than the \$9,486,422 of governmental and business-type expenses.
- In FY 13-14, the total costs of the District's programs were 8.33% more than the prior year. This is in part due to a loss on the disposal of two rural school buildings, which is recorded as an expense on the government-wide statements. Operating expenditures net of losses/gains on capital assets were 5.02% more than the prior year.
- The District made principal payments of \$765,000 on outstanding capital outlay certificates. The District also made principal payments of \$61,558 on capital leases used to finance computers and copiers.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Custer School District No. 16-1
Management's Discussion and Analysis (Unaudited)
June 30, 2014

Figure A-1 summarizes the major features of the District's financial statements, including the portion of the District 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.

Figure A-1

Major Features of Custer School District's Government-Wide and Fund Financial Statements				
	Government-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as instructional, support and cocurricular activities.	Activities of the District operates similar to private businesses, the food services operation.	Assets held by District on behalf of someone else. Student organizations that have funds on deposit with the District are reported here.
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Position *Statement of Revenues, Expenses and Changes in Net Position *Statement of Cash Flows	*Statement of Fiduciary Net Position *Statement of Changes in 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 or long-term liabilities included.	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets although they can.
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid.	All revenues and expenses during year, regardless of when cash is received or paid.

Custer School District No. 16-1
Management's Discussion and Analysis (Unaudited)
June 30, 2014

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net 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 District's net position and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or position.

- Increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and changes in the state school aid funding formula from the State of South Dakota.

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

- **Governmental Activities** - This category includes the District's basic instructional services, such as elementary and high school educational programs, support services (guidance councilor, 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 charges a fee to students in the Driver's Education program.

Fund Financial Statements

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

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

The District has three kinds of funds:

- **Governmental Funds** – Most of the District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily 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 District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.

Custer School District No. 16-1
Management's Discussion and Analysis (Unaudited)
June 30, 2014

- Proprietary Funds - Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service Enterprise Fund and the Driver's Education Fund are the proprietary funds maintained by the District.
- Fiduciary Funds - The District is the trustee, or fiduciary, for various external and internal parties. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position increased as follows:

Table A-1
Custer School District No. 16-1
Statement of Net Position

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2013	2014	2013	2014	2013	2014	2013 - 2014
Current and Other Assets	\$ 11,315,636	\$12,002,897	\$ 43,712	\$ 46,964	\$ 11,359,348	\$12,049,861	6.08%
Capital Assets (Net of Depreciation)	20,694,329	20,089,603	86,642	79,197	20,780,971	20,168,800	-2.95%
Total Assets	<u>32,009,965</u>	<u>32,092,500</u>	<u>130,354</u>	<u>126,161</u>	<u>32,140,319</u>	<u>32,218,661</u>	0.24%
Long-Term Liabilities Outstanding	15,858,785	15,005,133	-	-	15,858,785	15,005,133	-5.38%
Other Liabilities	746,649	633,556	11,047	8,778	757,696	642,334	-15.23%
Total Liabilities	<u>16,605,434</u>	<u>15,638,689</u>	<u>11,047</u>	<u>8,778</u>	<u>16,616,481</u>	<u>15,647,467</u>	-5.83%
Total Deferred Inflows of Resources	<u>3,948,753</u>	<u>3,941,353</u>	<u>-</u>	<u>-</u>	<u>3,948,753</u>	<u>3,941,353</u>	-0.19%
Net Investment in Capital Assets	5,679,477	5,890,362	86,642	79,197	5,766,119	5,969,559	3.53%
Restricted	1,892,211	2,248,029	-	-	1,892,211	2,248,029	18.80%
Unrestricted	3,884,090	4,374,067	32,665	38,186	3,916,755	4,412,253	12.65%
Total Net Position	<u>\$ 11,455,778</u>	<u>\$12,512,458</u>	<u>\$ 119,307</u>	<u>\$117,383</u>	<u>\$ 11,575,085</u>	<u>\$ 12,629,841</u>	9.11%

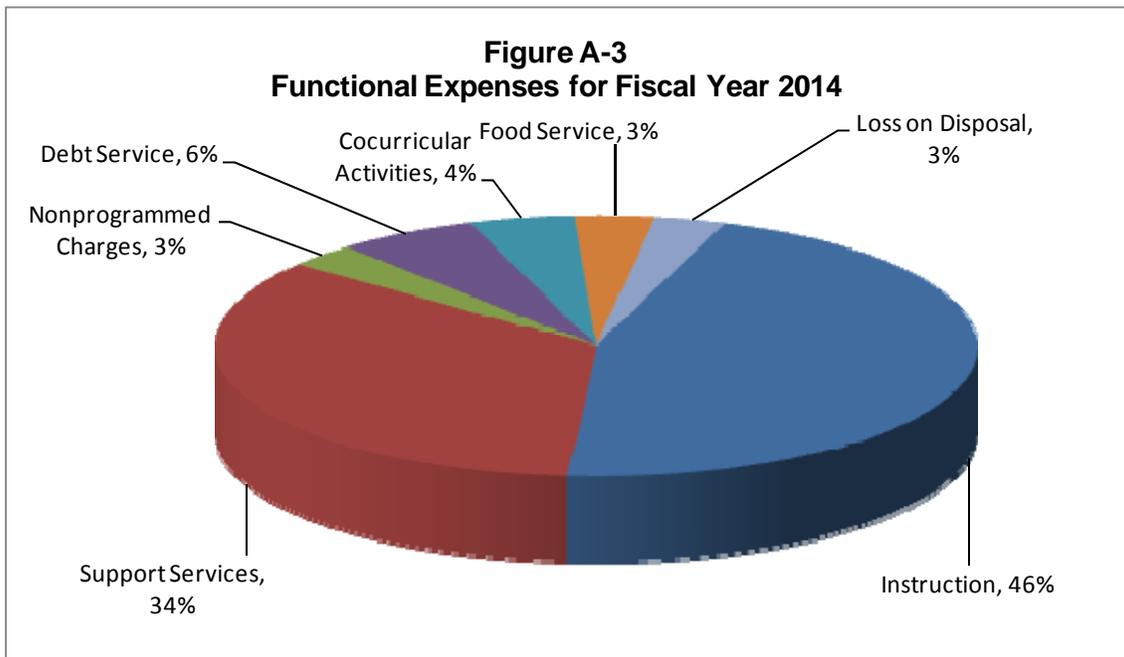
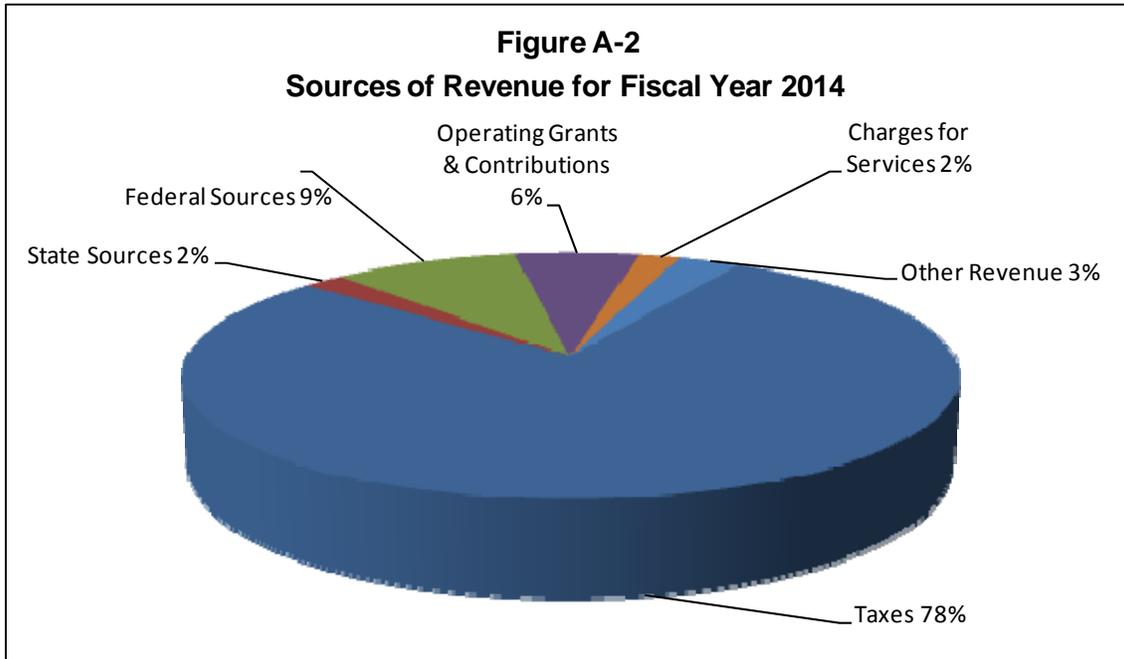
The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components - the amount due within one year and the amount due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

**Custer School District No. 16-1
Management's Discussion and Analysis (Unaudited)
June 30, 2014**

Changes in Net Position

The District's revenues totaled \$10,686,148. Approximately 78% of the District's revenue came from property and other taxes with approximately 9% from federal sources and 6% coming from operating grants and contributions (See Figure A-2).

The District's expenses cover a range of services encompassing instruction, support services, and food services. (See Figure A-3)



Custer School District No. 16-1
Management's Discussion and Analysis (Unaudited)
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GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

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

Table A-2
Custer School District No. 16-1
Changes in Net Position

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2013	2014	2013	2014	2013	2014	2013 - 2014
Revenues							
Program Revenues							
Charges for Services	\$ 26,816	\$ 25,147	\$ 159,462	\$ 166,006	\$ 186,278	\$ 191,153	2.62%
Operating Grants and Contributions	506,523	507,587	151,442	152,033	657,965	659,620	0.25%
General Revenues							
Taxes	8,013,109	8,319,413	-	-	8,013,109	8,319,413	3.82%
Revenue State Sources	190,812	191,817	2,426	-	193,238	191,817	-0.74%
Revenue Federal Sources	3,033,162	985,357	-	-	3,033,162	985,357	-67.51%
Revenue Intermediate Sources	96,100	106,333	-	-	96,100	106,333	10.65%
Unrestricted Investment Earnings	(1,444)	16,540	114	82	(1,330)	16,622	-1349.77%
Other General Revenues	217,384	215,833	-	-	217,384	215,833	-0.71%
Gain on Sale of Capital Assets	112,537	-	-	-	112,537	-	100.00%
Total Revenues	<u>12,194,999</u>	<u>10,368,027</u>	<u>313,444</u>	<u>318,121</u>	<u>12,508,443</u>	<u>10,686,148</u>	-14.57%
Expenses							
Instruction	4,264,511	4,323,627	-	-	4,264,511	4,323,627	1.39%
Support Services	2,899,810	3,271,492	-	-	2,899,810	3,271,492	12.82%
Nonprogrammed Charges	258,860	277,791	-	-	258,860	277,791	7.31%
Debt Service	600,888	569,222	-	-	600,888	569,222	-5.27%
Cocurricular Activities	402,631	419,847	-	-	402,631	419,847	4.28%
Community Services	10,122	10,780	-	-	10,122	10,780	6.50%
Driver's Education	-	-	472	275	472	275	-41.74%
Food Service	-	-	319,349	323,361	319,349	323,361	1.26%
Loss on Disposal of Assets	-	290,027	-	-	-	290,027	100.00%
Total Expenses	<u>8,436,822</u>	<u>9,162,786</u>	<u>319,821</u>	<u>323,636</u>	<u>8,756,643</u>	<u>9,486,422</u>	8.33%
Excess (Deficiency) Before							
Special Items and Transfers	3,758,177	1,205,241	(6,377)	(5,515)	3,751,800	1,199,726	-68.02%
Transfers	<u>(10,793)</u>	<u>(3,591)</u>	<u>10,793</u>	<u>3,591</u>	<u>-</u>	<u>-</u>	0.00%
Increase (Decrease) in Net Position	3,747,384	1,201,650	4,416	(1,924)	3,751,800	1,199,726	-68.02%
Beginning Net Position, as Restated	<u>7,708,394</u>	<u>11,310,808</u>	<u>114,891</u>	<u>119,307</u>	<u>7,823,285</u>	<u>11,430,115</u>	46.10%
Ending Net Position	<u>\$ 11,455,778</u>	<u>\$ 12,512,458</u>	<u>\$ 119,307</u>	<u>\$ 117,383</u>	<u>\$ 11,575,085</u>	<u>\$ 12,629,841</u>	9.11%

GOVERNMENTAL ACTIVITIES

The governmental activities - Governmental activities showed a significant decrease in instructional costs due to staff and program cuts and cuts to supply and travel budgets. Support services costs also decreased due to staff cuts.

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Management's Discussion and Analysis (Unaudited)
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BUSINESS-TYPE ACTIVITIES

Revenues of the District's business-type activities (Food Service and Driver's Education) increased by approximately 1.49% to \$318,121 and expenses increased by approximately 1.19% to \$323,636.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The General Fund fund balance increased for the year ended June 30, 2014. This was due to revenues being sufficient to cover expenditures, and the receipt of Insurance proceeds of over \$85,000. The Special Education fund balance showed an increase due increased property tax revenues and slightly decreased expenditures. The Capital Outlay fund balance increased slightly due to increased federal and state funding. The Pension Fund fund balance will remain stable with anticipated expenditures being equal to the revenue.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no significant budget changes or budget variances for the year.

CAPITAL ASSET ADMINISTRATION

By the end of FY 2014, the District had invested \$20,168,800 (net of depreciation) in a broad range of capital assets including land, buildings, various machinery, and equipment. (See Table A-3) This amount represents a net decrease (including additions and deductions) of \$612,171. The capitalization threshold remains at \$25,000 for all improvements, \$50,000 for all buildings, and \$5,000 for all equipment for governmental activities and \$1,000 for business type activities.

Table A-3
Custer School District No. 16-1
Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2013	2014	2013	2014	2013 - 2014	2013 - 2014
Land	\$ 248,651	\$ 243,323	\$ -	\$ -	\$ (5,328)	-2.14%
Buildings	19,115,422	18,556,385	-	-	(559,037)	-2.92%
Improvements	566,173	491,862	-	-	(74,311)	-13.13%
Equipment	764,083	798,033	86,642	79,197	26,505	3.12%
Total Capital Assets (Net)	<u>\$ 20,694,329</u>	<u>\$ 20,089,603</u>	<u>\$ 86,642</u>	<u>\$ 79,197</u>	<u>\$ (612,171)</u>	-2.95%

This year's capital asset purchases were for new security systems at all the schools, a server and wireless systems, a new sign at the Hermosa school, new sound systems, a scoreboard, and 2 vehicles. The District also transferred ownership of two rural school buildings to other public entities.

**Custer School District No. 16-1
Management's Discussion and Analysis (Unaudited)
June 30, 2014**

LONG-TERM DEBT

At year-end the District had \$15,005,133 in Capital Outlay Certificates and other long-term obligations. This is a decrease of 5.38% as shown on Table A-4 below.

Table A-4
Custer School District No. 16-1
Outstanding Debt and Obligations

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2013	2014	2013	2014	2013 - 2014	2013 - 2014
Capital Outlay Certificates	\$ 14,945,000	\$ 14,180,000	\$ -	\$ -	\$ (765,000)	-5.12%
Early Retirement Payable	492,915	478,722	-	-	(14,193)	-2.88%
Capital Lease	193,543	131,985	-	-	(61,558)	-31.81%
OPEB	25,355	37,789	-	-	12,434	100.00%
Compensated Absences	<u>201,972</u>	<u>176,637</u>	<u>-</u>	<u>-</u>	<u>(25,335)</u>	-12.54%
Total Outstanding Debt and Obligations	<u>\$ 15,858,785</u>	<u>\$ 15,005,133</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (853,652)</u>	-5.38%

The District is liable for the accrued sick leave payable to all staff. The accrual leave liability is reported as compensated absences in the above schedule and with the financial statements.

A liability was booked in FY' 2014 for Other Post Employment Benefits (OPEB) which are owed to future retirees. This liability is determined based on an actuarial valuation of potential future benefits payable.

The District made debt service principal and interest payments on Capital Outlay Certificates in the amount of \$765,000 for principal and \$541,837 for interest. The District made debt service principal and interest payments on the Capital Lease for the computers and copiers in the amount of \$61,558 in principal and \$6,990 in interest.

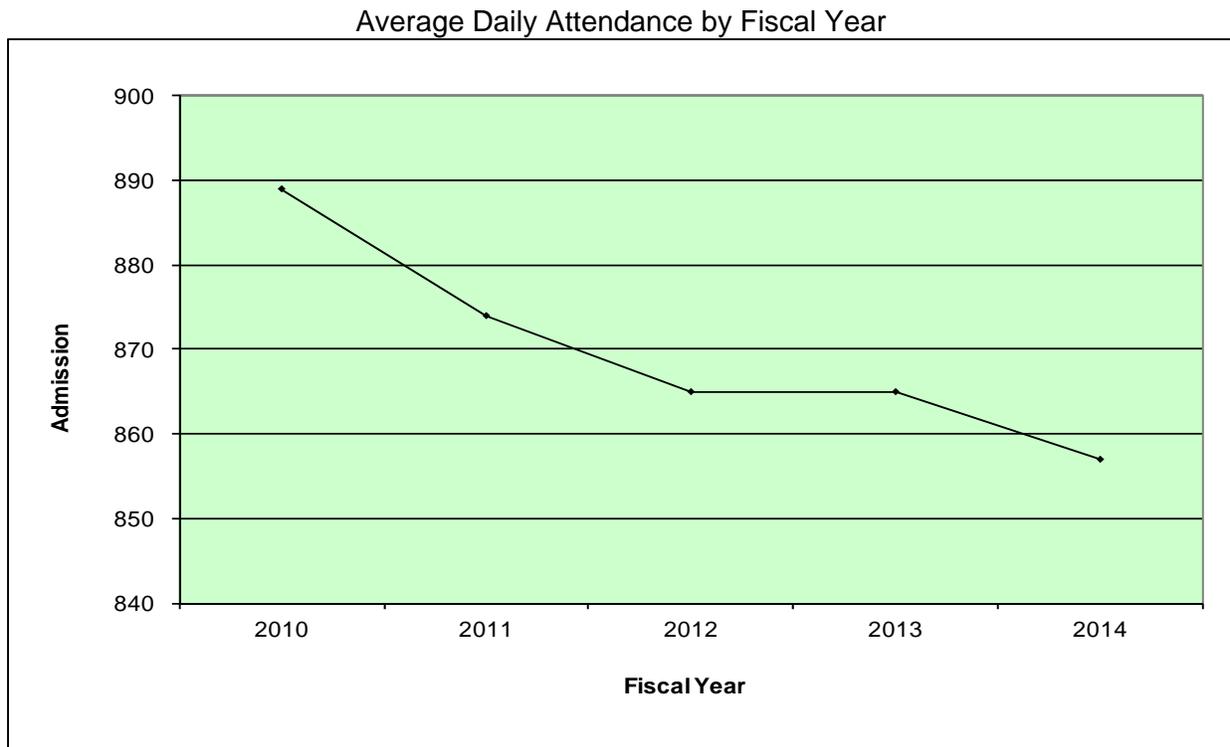
ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Due to slight increases in property values, declining enrollment, and decreases to the state per student allocation over the past few years, the district expects little to no state aid for next year. Fund balances are not expected to continue to grow in the next year.

**Custer School District No. 16-1
Management's Discussion and Analysis (Unaudited)
June 30, 2014**

One of the primary sources of revenue to the District is based on a per student allocation received from the State of South Dakota. The state aid formula for the current year ensures that property taxes plus state aid will equal \$4,625.65 per pupil. The allocation for FY15 has increased to \$4,781.14 due to the structural increase in the State's budget. This number is comprised of both local taxes and state aid. With the District's projected decline in student enrollment, the allocation does not meet the needs of rising costs for the future. The District has continued to cut costs wherever possible to help maintain expenditures and increase the fund balance for the general fund.

Below is a graph which shows the trends in the District's average daily attendance for the last five years.



CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Custer School's Business Office, 527 Montgomery Street, Custer, SD 57730.

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BASIC FINANCIAL STATEMENTS

Custer School District No. 16-1
Statement of Net Position
June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 6,822,755	\$ 40,582	\$ 6,863,337
Taxes Receivable	3,980,719	-	3,980,719
Accounts Receivable	10,482	-	10,482
Due From Other Governments	194,468	-	194,468
Inventories	-	6,382	6,382
Unamortized Discount on Debt	112,745	-	112,745
Capital Assets:			
Land	243,323	-	243,323
Buildings	20,374,663	-	20,374,663
Improvements	1,153,087	-	1,153,087
Equipment	1,807,261	173,036	1,980,297
Less Accumulated Depreciation	<u>(3,488,731)</u>	<u>(93,839)</u>	<u>(3,582,570)</u>
Total Capital Assets, Net of Depreciation	<u>20,089,603</u>	<u>79,197</u>	<u>20,168,800</u>
Restricted Assets:			
Cash Restricted for Debt Service	<u>881,728</u>	<u>-</u>	<u>881,728</u>
TOTAL ASSETS	<u>32,092,500</u>	<u>126,161</u>	<u>32,218,661</u>
LIABILITIES			
Accounts Payable	167,575	-	167,575
Other Current Liabilities	465,981	-	465,981
Unearned Revenue	-	8,778	8,778
Long-term Liabilities:			
Due Within One Year	1,122,228	-	1,122,228
Due in More than One Year	<u>13,882,905</u>	<u>-</u>	<u>13,882,905</u>
TOTAL LIABILITIES	<u>15,638,689</u>	<u>8,778</u>	<u>15,647,467</u>
DEFERRED INFLOWS OF RESOURCES			
Property Taxes Levied for Future Periods	<u>3,941,353</u>	<u>-</u>	<u>3,941,353</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>3,941,353</u>	<u>-</u>	<u>3,941,353</u>

The accompanying notes are an integral part of this statement.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
NET POSITION			
Net Investment in Capital Assets	5,890,362	79,197	5,969,559
Restricted for:			
Capital Outlay	1,135,406	-	1,135,406
Special Education	230,895	-	230,895
Debt Service	881,728	-	881,728
Unrestricted	<u>4,374,067</u>	<u>38,186</u>	<u>4,412,253</u>
TOTAL NET POSITION	<u>\$ 12,512,458</u>	<u>\$ 117,383</u>	<u>\$ 12,629,841</u>

The accompanying notes are an integral part of this statement.

Custer School District No. 16-1
Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Charges for Services
GOVERNMENTAL ACTIVITIES		
Instruction	\$ 4,323,627	\$ -
Support Services	3,271,492	-
Community Services	10,780	-
Cocurricular Activities	419,847	25,147
Nonprogrammed Charges	277,791	-
Interest on Long-term Debt *	569,222	-
Total Governmental Activities	<u>8,872,759</u>	<u>25,147</u>
BUSINESS-TYPE ACTIVITIES		
Driver's Education	275	1,120
Food Service	323,361	164,886
Total Business-type Activities	<u>323,636</u>	<u>166,006</u>
Total Primary Government	<u>\$ 9,196,395</u>	<u>\$ 191,153</u>

* 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.

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
		Governmental Activities	Business-type Activities	Total
\$ 482,587	\$ -	\$ (3,841,040)	\$ -	\$ (3,841,040)
25,000	-	(3,246,492)	-	(3,246,492)
-	-	(10,780)	-	(10,780)
-	-	(394,700)	-	(394,700)
-	-	(277,791)	-	(277,791)
-	-	(569,222)	-	(569,222)
<u>507,587</u>	<u>-</u>	<u>(8,340,025)</u>	<u>-</u>	<u>(8,340,025)</u>
-	-	-	845	845
<u>152,033</u>	<u>-</u>	<u>-</u>	<u>(6,442)</u>	<u>(6,442)</u>
<u>152,033</u>	<u>-</u>	<u>-</u>	<u>(5,597)</u>	<u>(5,597)</u>
<u>\$ 659,620</u>	<u>\$ -</u>	<u>(8,340,025)</u>	<u>(5,597)</u>	<u>(8,345,622)</u>
GENERAL REVENUES				
Taxes:				
Property Taxes		7,998,445	-	7,998,445
Gross Receipts Taxes		320,968	-	320,968
Revenue From State Sources:				
State Aid		125,865	-	125,865
Other		65,952	-	65,952
Revenue From Federal Sources		985,357	-	985,357
Revenue From Intermediate Sources		106,333	-	106,333
Unrestricted Investment Earnings		16,540	82	16,622
Other General Revenues		215,833	-	215,833
Loss on Disposal of Capital Assets		(290,027)	-	(290,027)
Transfers		(3,591)	3,591	-
Total General Revenues, Loss and Transfers		<u>9,541,675</u>	<u>3,673</u>	<u>9,545,348</u>
CHANGE IN NET POSITION		<u>1,201,650</u>	<u>(1,924)</u>	<u>1,199,726</u>
NET POSITION - BEGINNING		11,481,133	119,307	11,600,440
PRIOR PERIOD ADJUSTMENT		<u>(170,325)</u>	<u>-</u>	<u>(170,325)</u>
NET POSITION - BEGINNING AS RESTATED		<u>11,310,808</u>	<u>119,307</u>	<u>11,430,115</u>
NET POSITION - ENDING		<u>\$ 12,512,458</u>	<u>\$ 117,383</u>	<u>\$ 12,629,841</u>

The accompanying notes are an integral part of this statement.

Custer School District No. 16-1
Balance Sheet - Governmental Funds
June 30, 2014

	General Fund	Capital Outlay Fund
ASSETS		
Cash and Cash Equivalents	\$ 5,254,192	\$ 1,220,128
Investments	-	-
Taxes Receivable, Current	2,058,120	1,055,042
Taxes Receivable, Delinquent	115,345	60,443
Accounts Receivable, Net	4,462	6,020
Due From Other Governments	147,624	-
Permanent Incidental Account	4,000	-
TOTAL ASSETS	\$ 7,583,743	\$ 2,341,633
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
Liabilities:		
Accounts Payable	\$ 69,469	\$ 93,362
Contracts Payable	309,584	-
Payroll Deductions and Employer Matching Payable	91,180	-
Total Liabilities	470,233	93,362
Deferred Inflows of Resources:		
Property Taxes Levied for Future Periods	2,142,428	1,112,750
Delinquent Property Taxes Received Outside the Period of Availability	113,139	59,500
Total Deferred Inflows of Resources	2,255,567	1,172,250
Fund Balances		
Restricted		
For Capital Outlay	-	1,076,021
For Special Education	-	-
For Pension	-	-
For Debt Service	-	-
Assigned		
For Next Year's Budget	107,817	-
Unassigned	4,750,126	-
Total Fund Balances	4,857,943	1,076,021
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 7,583,743	\$ 2,341,633

The accompanying notes are an integral part of this statement.

Special Education Fund	Total Non-major Funds	Total Governmental Funds
\$ 296,870	\$ 47,565	\$ 6,818,755
-	881,728	881,728
549,910	105,605	3,768,677
28,758	7,496	212,042
-	-	10,482
46,844	-	194,468
-	-	4,000
<u>922,382</u>	<u>1,042,394</u>	<u>11,890,152</u>
\$ 4,744	\$ -	\$ 167,575
45,613	-	355,197
19,604	-	110,784
<u>69,961</u>	<u>-</u>	<u>633,556</u>
575,658	111,274	3,942,110
<u>28,281</u>	<u>7,402</u>	<u>208,322</u>
<u>603,939</u>	<u>118,676</u>	<u>4,150,432</u>
-	-	1,076,021
248,482	-	248,482
-	41,990	41,990
-	881,728	881,728
-	-	107,817
-	-	4,750,126
<u>248,482</u>	<u>923,718</u>	<u>7,106,164</u>
<u>\$ 922,382</u>	<u>\$ 1,042,394</u>	<u>\$ 11,890,152</u>

The accompanying notes are an integral part of this statement.

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Custer School District No. 16-1
Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Position
June 30, 2014

Total Fund Balances - Governmental Funds	\$	7,106,164
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		20,089,603
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:		
General Obligation Debt Capital Outlay Certificates		(14,180,000)
Capital Leases		(131,985)
Compensated Absences		(176,637)
Other Post Employment Benefits		(37,789)
Voluntary Separation Liability		(478,722)
Assets, including property taxes receivable and other receivables that are not available to pay for current period expenditures, are deferred in the governmental funds.		209,079
Unamortized discounts on debt are immediately recognized as expenditures in the governmental funds.		<u>112,745</u>
Net Position - Governmental Activities	\$	<u><u>12,512,458</u></u>

The accompanying notes are an integral part of this statement.

Custer School District No. 16-1
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds
For the Year Ended June 30, 2014

	General Fund	Capital Outlay Fund
REVENUES		
Revenue From Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 4,344,781	\$ 2,274,263
Gross Receipts Taxes	320,968	-
Penalties and Interest on Taxes	18,825	8,646
Cocurricular Activities	25,147	-
Earnings on Deposits	6,037	1,226
Other Local Revenue	166,462	35,944
Total Revenue From Local Sources	4,882,220	2,320,079
Revenue From Intermediate Sources:		
County Sources	100,908	-
Revenue in Lieu of Taxes	5,425	-
Total Revenue From Intermediate Sources	106,333	-
Revenue From State Sources:		
Unrestricted Grants-in-Aid	148,693	-
Restricted Grants-in-Aid	23,124	20,000
Total Revenue From State Sources	171,817	20,000
Revenue From Federal Sources:		
Unrestricted Grants-in-Aid	673,977	-
Restricted Grants-in-Aid	472,910	133,448
Total Revenue From Federal Sources	1,146,887	133,448
Total Revenue	6,307,257	2,473,527

The accompanying notes are an integral part of this statement.

<u>Special Education Fund</u>	<u>Total Non-major Funds</u>	<u>Total Governmental Funds</u>
\$ 1,134,058	\$ 227,515	\$ 7,980,617
-	-	320,968
4,090	864	32,425
-	-	25,147
142	9,135	16,540
<u>13,427</u>	<u>-</u>	<u>215,833</u>
<u>1,151,717</u>	<u>237,514</u>	<u>8,591,530</u>
-	-	100,908
<u>-</u>	<u>-</u>	<u>5,425</u>
<u>-</u>	<u>-</u>	<u>106,333</u>
-	-	148,693
<u>-</u>	<u>-</u>	<u>43,124</u>
<u>-</u>	<u>-</u>	<u>191,817</u>
-	-	673,977
<u>212,609</u>	<u>-</u>	<u>818,967</u>
<u>212,609</u>	<u>-</u>	<u>1,492,944</u>
<u>1,364,326</u>	<u>237,514</u>	<u>10,382,624</u>

The accompanying notes are an integral part of this statement.

Custer School District No. 16-1
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds (Continued)
For the Year Ended June 30, 2014

	General Fund	Capital Outlay Fund
EXPENDITURES		
Instructional Services:		
Regular Programs	2,807,487	166,337
Special Programs	188,256	-
Post-Secondary Occupational Programs	2,000	-
Total Instructional Services	<u>2,997,743</u>	<u>166,337</u>
Support Services:		
Pupils	198,670	-
Instructional Staff	166,145	2,024
General Administration	321,953	-
School Administration	373,398	204
Business	1,384,725	417,203
Special Education	-	-
Total Support Services	<u>2,444,891</u>	<u>419,431</u>
Cocurricular Activities:		
Male Activities	62,268	-
Female Activities	48,008	-
Transportation	77,296	-
Combined Activities	134,238	14,821
Total Cocurricular Activities	<u>321,810</u>	<u>14,821</u>
Other Nonprogrammed Costs:		
Compensated Absence Payments	38,483	-
Voluntary Separation Payments	-	-
Total Other Nonprogrammed Costs	<u>38,483</u>	<u>-</u>
Debt Services	-	1,384,833
Capital Outlay	-	228,986
Total Expenditures	<u>5,802,927</u>	<u>2,214,408</u>

The accompanying notes are an integral part of this statement.

Special Education Fund	Total Non-major Funds	Total Governmental Funds
-	-	2,973,824
854,253	-	1,042,509
-	-	2,000
<u>854,253</u>	<u>-</u>	<u>4,018,333</u>
196,947	-	395,617
-	-	168,169
-	-	321,953
-	-	373,602
-	-	1,801,928
161,358	-	161,358
<u>358,305</u>	<u>-</u>	<u>3,222,627</u>
-	-	62,268
-	-	48,008
-	-	77,296
-	-	149,059
<u>-</u>	<u>-</u>	<u>336,631</u>
7,913	-	46,396
-	270,922	270,922
<u>7,913</u>	<u>270,922</u>	<u>317,318</u>
<u>-</u>	<u>-</u>	<u>1,384,833</u>
<u>-</u>	<u>-</u>	<u>228,986</u>
<u>1,220,471</u>	<u>270,922</u>	<u>9,508,728</u>

The accompanying notes are an integral part of this statement.

Custer School District No. 16-1
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds (Continued)
For the Year Ended June 30, 2014

	<u>General Fund</u>	<u>Capital Outlay Fund</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>504,330</u>	<u>259,119</u>
OTHER FINANCING SOURCES		
Transfer In (Out)	-	(166,000)
Insurance Proceeds	<u>85,423</u>	<u>18,948</u>
Total Other Financing Sources	<u>85,423</u>	<u>(147,052)</u>
NET CHANGE IN FUND BALANCES	589,753	112,067
FUND BALANCE - BEGINNING	<u>4,268,190</u>	<u>963,954</u>
FUND BALANCE - ENDING	<u>\$ 4,857,943</u>	<u>\$ 1,076,021</u>

The accompanying notes are an integral part of this statement.

Special Education Fund	Total Non-major Funds	Total Governmental Funds
<u>143,855</u>	<u>(33,408)</u>	<u>873,896</u>
-	166,000	-
-	-	<u>104,371</u>
<u>-</u>	<u>166,000</u>	<u>104,371</u>
143,855	132,592	978,267
<u>104,627</u>	<u>791,126</u>	<u>6,127,897</u>
<u>\$ 248,482</u>	<u>\$ 923,718</u>	<u>\$ 7,106,164</u>

The accompanying notes are an integral part of this statement.

Custer School District No. 16-1
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	\$	978,267
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 are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital asset purchases in the current period.		(210,328)
Governmental funds only report proceeds from the sale of capital assets. However, the Statement of Activities reports gains and losses on capital assets. This is the amount in which retired capital assets book value exceeded accumulated depreciation.		(394,398)
The recognition of revenues in the governmental funds differ from the recognition in the governmental activities in the fact that revenue accruals in the fund financial statements require the amounts to be "available".		(14,597)
Governmental funds do not reflect the change in compensated absences, voluntary separation, and OPEB liabilities but the Statement of Activities reflects the change in these accruals through expenses.		27,094
Repayment of general obligation debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		826,558
Unamortized discounts associated with general obligation debt are recorded as expenditures or other financing sources in the governmental funds. However, these items are amortized over the life of the debt in the governmental activities. This is the amount by which unamortized discounts exceeded deferrals for the current period.		<u>(10,946)</u>
Change in Net Position of Governmental Activities	\$	<u>1,201,650</u>

The accompanying notes are an integral part of this statement.

Custer School District No. 16-1
Statement of Net Position - Proprietary Funds
June 30, 2014

	Enterprise Funds		Totals
	Food Service Fund	Driver's Education Fund	
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 37,264	\$ 3,318	\$ 40,582
Inventory	6,382	-	6,382
Total Current Assets	<u>43,646</u>	<u>3,318</u>	<u>46,964</u>
Noncurrent Assets:			
Machinery and Equipment - Local Funds	173,036	-	173,036
Less Accumulated Depreciation	<u>(93,839)</u>	<u>-</u>	<u>(93,839)</u>
Total Noncurrent Assets	<u>79,197</u>	<u>-</u>	<u>79,197</u>
TOTAL ASSETS	<u>122,843</u>	<u>3,318</u>	<u>126,161</u>
LIABILITIES			
Current Liabilities:			
Unearned Revenue	<u>8,778</u>	<u>-</u>	<u>8,778</u>
TOTAL LIABILITIES	<u>8,778</u>	<u>-</u>	<u>8,778</u>
NET POSITION			
Net Investment in Capital Assets	79,197	-	79,197
Unrestricted	<u>34,868</u>	<u>3,318</u>	<u>38,186</u>
TOTAL NET POSITION	<u>\$ 114,065</u>	<u>\$ 3,318</u>	<u>\$ 117,383</u>

The accompanying notes are an integral part of this statement.

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Custer School District No. 16-1
Statement of Revenues, Expenses and Changes in Fund
Net Position - Proprietary Funds
For the Year Ended June 30, 2014

	Enterprise Funds		Totals
	Food Service Fund	Driver's Education Fund	
OPERATING REVENUE			
Sales to Pupils	\$ 159,643	\$ -	\$ 159,643
Sales to Adults	5,243	-	5,243
Other Operating Revenue	-	1,120	1,120
Total Operating Revenue	<u>164,886</u>	<u>1,120</u>	<u>166,006</u>
OPERATING EXPENSES			
Purchased Services	297,134	-	297,134
Supplies	68	275	343
Cost of Sales - Purchased Food	1,861	-	1,861
Cost of Sales - Donated Food	13,012	-	13,012
Miscellaneous	250	-	250
Depreciation	11,036	-	11,036
Total Operating Expenses	<u>323,361</u>	<u>275</u>	<u>323,636</u>
OPERATING INCOME (LOSS)	<u>(158,475)</u>	<u>845</u>	<u>(157,630)</u>
NONOPERATING REVENUE			
Local Sources:			
Interest Earned	77	5	82
State Sources:			
Cash Reimbursements	1,348	-	1,348
Federal Sources:			
Cash Reimbursements	137,309	-	137,309
Donated Food	13,376	-	13,376
Total Nonoperating Revenue	<u>152,110</u>	<u>5</u>	<u>152,115</u>
CAPITAL CONTRIBUTIONS			
Capital Contributions	<u>3,591</u>	<u>-</u>	<u>3,591</u>
CHANGE IN NET POSITION	(2,774)	850	(1,924)
NET POSITION - BEGINNING	<u>116,839</u>	<u>2,468</u>	<u>119,307</u>
NET POSITION - ENDING	<u>\$ 114,065</u>	<u>\$ 3,318</u>	<u>\$ 117,383</u>

The accompanying notes are an integral part of this statement.

Custer School District No. 16-1
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2014

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Food Service Fund</u>	<u>Driver's Education Fund</u>	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers	\$ 162,689	\$ 1,120	\$ 163,809
Payments to Suppliers	<u>(299,749)</u>	<u>(275)</u>	<u>(300,024)</u>
Net Cash Provided (Used) by Operating Activities	<u>(137,060)</u>	<u>845</u>	<u>(136,215)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating Subsidies	<u>139,021</u>	<u>-</u>	<u>139,021</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Earnings	<u>77</u>	<u>5</u>	<u>82</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,038	850	2,888
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>35,226</u>	<u>2,468</u>	<u>37,694</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 37,264</u>	<u>\$ 3,318</u>	<u>\$ 40,582</u>

The accompanying notes are an integral part of this statement.

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Food Service Fund</u>	<u>Driver's Education Fund</u>	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ (158,475)	\$ 845	\$ (157,630)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	11,036	-	11,036
Cost of Sales - Donated Food	13,012	-	13,012
Change in Assets and Liabilities:			
Inventory	(364)	-	(364)
Accounts Payable	(72)	-	(72)
Deferred Revenue	(2,197)	-	(2,197)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (137,060)</u>	<u>\$ 845</u>	<u>\$ (136,215)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Value of Property Donated from the Capital Outlay Fund and Capital Projects Fund	<u>\$ 3,591</u>	<u>\$ -</u>	<u>\$ 3,591</u>
Value of Commodities Received	<u>\$ 13,376</u>	<u>\$ -</u>	<u>\$ 13,376</u>

The accompanying notes are an integral part of this statement.

Custer School District No. 16-1
Statement of Fiduciary Net Position - Fiduciary Funds
June 30, 2014

	Private- Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	-	\$ 96,898
Savings Certificates	\$ 32,426	-
TOTAL ASSETS	32,426	96,898
LIABILITIES		
Cash Deficiency	4,559	-
Amounts Held for Others	-	96,898
TOTAL LIABILITIES	4,559	\$ 96,898
NET POSITION		
Restricted for Scholarships: Expendable	27,867	
TOTAL NET POSITION	\$ 27,867	

The accompanying notes are an integral part of this statement.

Custer School District No. 16-1
Statement of Changes in Fiduciary Net Position - Fiduciary Funds
For the Year Ended June 30, 2014

	<u>Private- Purpose Trust Funds</u>
ADDITIONS	
Interest	\$ <u>557</u>
DEDUCTIONS	
Scholarships Awarded	<u>3,750</u>
CHANGE IN NET POSITION	(3,193)
NET POSITION - BEGINNING	<u>31,060</u>
NET POSITION - ENDING	<u>\$ 27,867</u>

The accompanying notes are an integral part of this statement.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The reporting entity of Custer School District No. 16-1 (the District), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The District is a public education agency operating under the applicable laws and regulations of the State of South Dakota. It is governed by a seven member Board of Trustees (the Board) elected by registered voters of the District. The Board has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has accountability for fiscal matters. There are no component units included within the reporting entity.

The District participates in a cooperative service unit with several other school districts. See Note 10 - Joint Venture 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 the notes because of the nature of their relationship with the District.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the overall government, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities.

These statements distinguish between the governmental and business-type activities of the District. Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Position reports all financial and capital resources in a net position form (assets and deferred inflows of resources minus liabilities and deferred outflows of resources equal net position). Net positions 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 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.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

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

C. FUND TYPES AND MAJOR FUNDS

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

1. Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 year to year or because of public interest in the fund's operations.

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

Governmental Funds:

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

Special Revenue Fund Types - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The District's special revenue funds are as follows:

Capital Outlay Fund - A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisitions of or additions to real property, plant or equipment, textbooks and instructional software. This fund is financed by property taxes and 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 primarily by property taxes and state and federal grants. 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 and is not a major fund.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Service Fund - Debt service funds are used to account for the accumulation of resources for the payment of general long-term debt principal, interest and related costs. The District has one debt service fund used to accumulate annual principal payments in escrow for the eventual repayment of the 2009A, 2010, 2010A, and 2011 Capital Outlay Certificates. The debt service fund is not a major fund.

Proprietary Funds:

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

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.

Driver's Education Fund - A fund used to record financial transactions related to the driver's education program. This fund is financed by user charges. This is a major fund.

Fiduciary Funds:

Fiduciary funds are never considered to be major funds.

Private-Purpose Trust Fund Types - Private-purpose trust funds are used to account for all trust arrangements under which principal and income benefits individuals, private organizations, or other governments. The District maintains two private purpose trust funds: a scholarship fund and the Gould scholarship fund. The purpose of these funds is to provide scholarships to qualifying students.

Agency Fund Types - 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 to hold assets as an agent in a trustee capacity for various classes, clubs, and so on.

D. 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.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements:

In the fund financial statements, the “current financial resources” measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary 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 funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. “Available” means resources are collected or will 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 District considers significant revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end.

Receivables, such as taxes receivable and grants receivable, 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 inflows of resources are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

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

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

E. INTERFUND ELIMINATIONS AND RECLASSIFICATIONS

In the process of aggregating data for the government-wide financial statements the District has charged certain “centralized expenses”, including an administrative overhead component, as direct expenses to programs in order to show all expenses that are associated with a service, program or department. This process minimizes the doubling-up effect on internal service fund activity.

F. CASH AND CASH EQUIVALENTS

The District pools its cash resources for depositing purposes. Accordingly, the enterprise funds have access to their cash resources on demand. All reported enterprise fund deposit balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. INVENTORY

Inventory is valued at the lower of cost or market. The cost valuation method is first-in, first-out for enterprise fund inventories and average cost for governmental fund inventories.

Donated commodities are valued at estimated market value based on the USDA price list at the date of receipt.

Inventory in the governmental funds and governmental activities consist of expendable supplies held for consumption. In the government-wide financial statements and governmental funds, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed. Inventories reported in the fund financial statements are equally offset by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. Nonspendable fund balances related to inventory are reported net of the related liability (accounts payable).

H. CAPITAL ASSETS

Capital assets include land, buildings, improvements, 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 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. Interest costs incurred during construction of capital assets are not capitalized.

Capitalization thresholds (the dollar value above which individual asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide financial statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Land	\$ All	-----
Buildings	50,000	33-100 yrs
Improvements	25,000	5-25 yrs
Equipment (governmental activities)	5,000	5-20 yrs
Equipment (proprietary funds)	1,000	5-20 yrs

Depreciation expense is calculated using the straight-line and composite methods. Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities. 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 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 financial statements.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. 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.

Government-wide Financial Statements:

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide financial statements. Long-term liabilities consist of compensated absences, voluntary separation, capital outlay certificates, and capital leases.

Compensated Absences Payable - Compensated absences payable is the annual leave earned by employees. Vacation leave is earned by 12 month employees at varying rates depending on years of service. Sick leave is earned by the employees at the rate of one day for each month worked. Upon termination employees are entitled to receive compensation for their accrued annual leave, employees are not entitled to compensation for sick leave balances. Accrued leave payable balances are reported in Note 5 as compensated absences. For employees normally paid out of the governmental funds, these amounts are charged as an expenditure at the time of termination or when the benefit becomes payable to the employee.

Fund Financial Statements:

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

J. DEFERRED INFLOWS OF RESOURCES

The District's governmental funds report a separate section for deferred inflows of resources. This section reflects a decrease in net position that applies to a future period or periods. Under the modified accrual basis of accounting, governmental fund revenues are not recognized until available (collected no later than 60 days after the end of the District's fiscal year). The District reports the following as deferred inflows of resources in the governmental funds: property taxes levied but not collected within the available period, and property taxes collected within the available period that are intended to finance the next fiscal year. In the government-wide financial statements, the District reports deferred inflows of resources for the property taxes that are levied for future periods. The District has no deferred inflows of resources to report in the proprietary fund statements for the current year.

K. NET POSITION AND FUND BALANCE

Government-wide Financial Statements:

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 positions are available. Net Position includes the following three components:

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 capital outlay certificates or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted - 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.

Unrestricted - Represents all other net positions that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

Governmental fund equity is classed as fund balance, which is distinguished between the following classifications:

Nonspendable - Includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted - Constraints are placed on the use of resources by either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts that are constrained by the District's intent to be used for specific purposes but are not restricted. Amounts can be assigned by committees of the School Board or management of the District.

Unassigned - Represents fund balance that has not been assigned to other funds and that has not been restricted or assigned.

The District uses restricted amounts first when both restricted and unrestricted fund balance is 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 assigned, then unassigned amounts of unrestricted fund balance when expenditures are made. The District does not have a minimum fund balance policy.

Proprietary net positions are classified the same as in the government-wide financial statements. Fiduciary net positions (except for Agency Funds, which do not have net position) are reported as net position held in trust for other purposes.

L. PROPRIETARY FUND REVENUE AND EXPENSE CLASSIFICATIONS

In the proprietary fund Statement of Revenues, Expenses and Changes in Fund Net Position 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.

M. PROGRAM REVENUES

In the 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:

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.

Program Revenues - 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.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

NOTE 2 - DEPOSITS AND INVESTMENTS

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Statutes impose various restrictions on deposits and investments. These restrictions are summarized below:

Deposits - The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts 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.

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 with the exception of capital credits revenue which is credited entirely to the General Fund. The District also reports deposits at cost plus interest and credit all income from deposits to the fund making the deposit with the exception of the general checking account whose interest income is credited to the General Fund.

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. The investments held by the District at June 30, 2014 were:

Investment	Credit Rating	Maturities	Fair Value
Cash	N/A	N/A	\$ 558
U.S. Treasury STRIPS	Unrated	2/15/2017	193,139
U.S. Treasury STRIPS	Unrated	8/15/2018	165,174
U.S. Treasury STRIPS	Unrated	11/15/2019	166,001
U.S. Treasury STRIPS	Unrated	11/15/2020	191,632
U.S. Treasury STRIPS	Unrated	11/15/2021	165,224
			<u>\$ 881,728</u>

Certificates of deposit, with a term to maturity of greater than 3 months when purchased, were insured or collateralized and are considered deposits.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2014, the District's deposits in financial institutions were not exposed to credit risk as all deposits were fully collateralized by pledged securities.

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.

Concentration of Credit Risk - The District places no limit on the amount that may be deposited with any one financial institution or invested with any one issuer.

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.

NOTE 3 - DUE FROM OTHER GOVERNMENTS

As of June 30, 2014, amounts due from other governments as reported in the financial statements consisted of \$103,182 due from the S.D. Department of Education and \$91,286 due from Custer and Pennington Counties.

NOTE 4 - CHANGES IN CAPITAL ASSETS

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

	Balance June 30, 2013	Increase	Decrease	Balance June 30, 2014
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 248,651	\$ -	\$ 5,328	\$ 243,323
Capital Assets Being Depreciated:				
Buildings	20,804,190	-	429,527	20,374,663
Improvements	1,153,087	-	-	1,153,087
Equipment	1,612,056	228,985	33,780	1,807,261
Total Capital Assets Being Depreciated:	23,569,333	228,985	463,307	23,335,011
Less Accumulated Depreciation for:				
Equipment	847,973	161,255	-	1,009,228
Buildings	1,688,768	203,747	74,237	1,818,278
Improvements	586,914	74,311	-	661,225
Total Accumulated Depreciation	3,123,655	439,313	74,237	3,488,731
Total Capital Assets Being Depreciated, Net	20,445,678	(210,328)	389,070	19,846,280
Net Capital Assets	<u>\$ 20,694,329</u>	<u>\$ (210,328)</u>	<u>\$ 394,398</u>	<u>\$ 20,089,603</u>
Business-type Activities:				
Equipment	\$ 169,445	\$ 3,591	\$ -	\$ 173,036
Less Accumulated Depreciation	82,803	11,036	-	93,839
Net Capital Assets	<u>\$ 86,642</u>	<u>\$ (7,445)</u>	<u>\$ -</u>	<u>\$ 79,197</u>

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2014

NOTE 4 - CHANGES IN CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 297,067
Support Services	48,805
Community Services	10,780
Cocurricular Activities	<u>82,661</u>
 Total Depreciation Expense	 <u>\$ 439,313</u>

All depreciation expense related to the business-type activities was for the Food Service Fund.

NOTE 5 - LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities:

	<u>Balance</u>			<u>Balance</u>	<u>Amounts Due</u>
	<u>June 30, 2013</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2014</u>	<u>Within 1 Year</u>
Governmental Activities:					
General Obligation Debt					
Capital Outlay					
Certificates	\$ 14,945,000	\$ -	\$ 765,000	\$ 14,180,000	\$ 785,000
Capital Leases	<u>193,543</u>	<u>-</u>	<u>61,558</u>	<u>131,985</u>	<u>63,942</u>
Subtotal	15,138,543	-	826,558	14,311,985	848,942
Other Liabilities:					
Compensated Absences	201,972	6,786	32,121	176,637	42,678
Other Post Employment Benefits	25,355	12,434	-	37,789	-
Voluntary Separation Liability	<u>492,915</u>	<u>268,547</u>	<u>282,740</u>	<u>478,722</u>	<u>230,608</u>
Total Long-term Liabilities	<u>\$ 15,858,785</u>	<u>\$ 287,767</u>	<u>\$ 1,141,419</u>	<u>\$ 15,005,133</u>	<u>\$ 1,122,228</u>

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2014

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

Capital outlay certificates and other general obligations at June 30, 2014 were comprised of the following:

2009A Capital Outlay Certificates, Bearing Interest at a Fixed Rate of 0.70%, Due 6/15/2024	2,480,000
2010 Capital Outlay Certificates, Bearing Interest at Fixed Rates Ranging from at 0.75% to 4.00%, Due 1/1/2024	3,605,000
2010A Capital Outlay Certificates, Bearing Interest at Fixed Rates Ranging from at 1.85% to 5.90%, Due 1/1/2030	6,160,000
2011 Capital Outlay Certificates, Bearing Interest at Fixed Rates Ranging from at 1.20% to 3.65%, Due 1/1/2024	1,935,000
Capital Lease, Due 8/1/15	94,675
Capital Lease, Due 7/1/16	<u>37,310</u>
	<u>\$ 14,311,985</u>

During the year ended June 30, 2012 the District entered into a capital lease for copiers. The lease requires monthly principal and interest payments of \$2,710 at a nominal annual interest rate of 7.10% until maturity on July 1, 2016. The outstanding balance of the capital lease at June 30, 2014 was \$37,311. The cost and accumulated depreciation of the equipment at June 30, 2014 was \$81,106 and \$48,664, respectively.

During the year ended June 30, 2014 the District entered into a capital lease for computers. The lease requires annual principal and interest payments of \$49,226 at a nominal annual interest rate of 2.65% until maturity on August 1, 2015. The outstanding balance of the capital lease at June 30, 2014 was \$94,675. The cost and accumulated depreciation of the equipment at June 30, 2014 was \$188,997 and \$94,498, respectively.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2014

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

The annual debt service requirements to maturity for all long-term debt outstanding as of June 30, 2014, excluding compensated absences, are as follows:

Year Ending June 30,	General Obligation Debt		Voluntary Separation Costs	Capital Lease	Totals
	Principal	Interest			
2015	\$ 785,000	\$ 551,303	\$ 230,608	\$ 63,942	\$ 1,630,853
2016	800,000	509,463	170,415	66,443	1,546,321
2017	825,000	484,198	77,699	1,600	1,388,497
2018	845,000	455,113	-	-	1,300,113
2019	875,000	419,448	-	-	1,294,448
2020-2024	7,335,000	1,519,233	-	-	8,854,233
2025-2029	2,220,000	548,675	-	-	2,768,675
2030-2034	495,000	29,205	-	-	524,205
Total Payments	\$ 14,180,000	\$ 4,516,637	478,722	\$ 131,985	\$ 19,307,344

Payments of all capital outlay certificates and capital lease obligations are made from the Capital Outlay Fund. Compensated absence payments are made from the fund that the related payroll expenditures are charged.

Sinking fund provisions on 2009A Capital Outlay Certificates require annual deposits of \$166,000 for fiscal year 2015 and \$165,000 for fiscal years thereafter until fiscal year 2023 after which the fund will continue to earn interest until maturity on June 30, 2024. The current balance of the sinking fund is presented as investments in the fund and governmental statements.

Voluntary separation costs are available to teachers and administrators that meet certain criteria. Upon retirement, the employee is entitled to receive a payment calculated by taking 5% of the current salary of the employee multiplied by the number of full years (up to a maximum of 20 years) service in the District. At June 30, 2014, there were 15 employees entitled to receive early retirement payments. Voluntary separation benefits are paid in three annual installments following the separation date of the employee. Final payment is currently scheduled for fiscal year 2017.

For the year ended June 30, 2014, payments of voluntary separation benefits were made out of the Pension Fund in the amount of \$282,740.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2014

NOTE 6 - RESTRICTED NET POSITION

The following table shows the components of restricted net position as presented on the Statement of Net Position:

<u>Purpose</u>	<u>Restricted By</u>	
Major Funds:		
Capital Outlay	Law	1,135,406
Special Education	Law	230,895
Debt Service	Contract	<u>881,728</u>
Total		<u>\$ 2,248,029</u>

Although unrestricted, the Business-type Activities' net position in the amount of \$38,186 is limited by Federal Regulations as the District's food services are primarily funded with federal grants.

NOTE 7 - PROPERTY TAX

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 District's taxes and remits them to the District.

District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. 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."

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 school district:

General Fund:	
Agricultural Property	\$ 2.09
Non Ag Z	9.20
Owner Occupied	4.30
Capital Outlay Fund	3.00
Special Education Fund	1.55
Pension Fund	0.30

State statute allows the General Fund tax rates to be increased by special election of the voters.

NOTE 8 - INDIVIDUAL FUND INTERFUND BALANCES AND TRANSACTIONS

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

<u>Transfers From:</u>	<u>Transfers To:</u>
	<u>Debt Service</u>
	<u>Fund</u>
Capital Outlay Fund	<u>\$ 166,000</u>

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2014

NOTE 8 - INDIVIDUAL FUND INTERFUND BALANCES AND TRANSACTIONS (CONTINUED)

During the year ended June 30, 2014, a transfer was made from the Capital Outlay Fund to the Debt Service Fund (non-major fund). The transfer to the Debt Service Fund was made for sinking fund provisions required by the 2009A capital outlay certificates.

Additionally, the Capital Outlay Fund transferred \$3,591 to the Food Service Fund in the Statement of Activities in the form of equipment purchased from the Capital Outlay Fund on behalf the Food Service Fund.

NOTE 9 - RETIREMENT PLAN

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

Covered employees are Class A Members, as defined by the plan, and are required by state statute to contribute 6.0%. State statute also requires the employer to contribute an amount equal to the employee's contribution. The statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the years ended June 30, 2014, 2013 and 2012 was \$241,532, \$245,977 and \$261,152, respectively, and was equal to the required contributions each year.

NOTE 10 - JOINT VENTURE

The District participates in the Black Hills Special Services Cooperative (the Co-op), a cooperative service unit formed for the purpose of providing special education and other services to the member school districts. During the year ended June 30, 2014, the District paid \$137,220 for services provided by the Co-op.

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

Belle Fourche School District	8.33%
Custer School District	8.33%
Douglas School District	8.33%
Edgemont School District	8.33%
Haakon School District	8.33%
Hill City School District	8.33%
Hot Springs School District	8.33%
Lead/Deadwood School District	8.33%
Meade School District	8.33%
Oelrichs School District	8.33%
Rapid City School District	8.33%
Spearfish School District	8.33%

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

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2014

NOTE 10 - JOINT VENTURE (CONTINUED)

The 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 may be obtained by writing to BHSSC, PO Box 218, Sturgis SD 57785. At June 30, 2014, this joint venture had assets of \$5,183,873, liabilities of \$885,604, deferred inflows of \$242,962, and net position of \$4,055,307 (unaudited).

The District also participates in the Black Hills Educational Benefits Cooperative (BHEBC); a cooperative service unit formed for the purpose of providing health insurance services to the member school districts. The relative percentage of participation of each member in BHEBC was not deemed to be a measurable matter.

The members of BHEBC are Black Hills Special Service Cooperative, New Underwood School District, Wall School District, Custer School District, Oelrichs School District, and Belle Fourche School District.

BHEBC's governing board is composed of two representatives from each member school district. The board is responsible for adopting BHEBC's budget and setting service fees at a level adequate to fund the adopted budget. Members are not liable for claims in excess of BHEBC's assets.

Separate financial statements may be obtained by writing to BHEBC, PO Box 218, Sturgis SD 57785. At June 30, 2014, this joint venture had total assets of \$3,026,212, liabilities of \$191,219, and equity of \$2,834,993 (unaudited).

NOTE 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 year ended June 30, 2014, the District managed its risks as follows:

Employee Health Insurance:

As discussed in Note 10, the District joined together with other educational units in the state to form a public entity risk pool. This is a public entity risk pool currently operating as a common risk management and insurance program for six member districts. 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 provides a deductible of \$1,000 per person up to \$2,000 per family. The plan also provides for coinsurance of 70 or 80 percent up to \$5,000. The coverage also includes a \$1,000,000 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 never exceeded the liability coverage.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2014

NOTE 11 - RISK MANAGEMENT (CONTINUED)

Liability Insurance:

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

The agreement with the Associated School Boards of South Dakota Property Liability Fund provides that the above coverage will be provided with a \$2,000,000 limit on liability coverage, \$250,000,000 limit on property, \$50,000,000 limit on boiler and machinery, and \$350,000 for various criminal acts. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of deductibles. As of June 30, 2014 the District carried the following deductibles related to insurance coverage:

General Liability	\$ -0-
Boiler and Machinery	5,000
Errors and Omissions	10,000
Defense Only Claims	5,000
Property	500
Automobile	-0-
Crime	1,000
Employee Benefits Liability	1,000

The 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 during the past three years.

Workmen's Compensation:

The District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool (the Fund) which provides workers' compensation insurance coverage for participating members of the pool. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2010

NOTE 11 - RISK MANAGEMENT (CONTINUED)

The District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report and to cooperate with the Fund to resolve any worker's compensation claims. The District pays an annual premium to provide worker's compensation coverage for its employees under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The District may also be responsible for additional assessments in the event the Fund 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. For the year ended June 30, 2014, the pool's retained risk was \$500,000 per occurrence, with additional coverage of \$1,000,000 per occurrence. There was no additional assessment charged to pool members for the year ended June 30, 2014.

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

NOTE 12 - POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description

Custer School District No. 16-1 offers a health insurance plan, established under SDCL 13-10-3 through the Black Hills Educational Benefits Cooperative (BHEBC), which is a cooperative service unit formed for the purpose of providing health insurance services to member school districts as described in Note 10. The members participate in a cost-sharing plan by pooling their participants to receive better insurance premiums than the members would receive individually. The premiums of the covered retirees are established by BHEBC, but the District's board determines retiree and employer contribution rates. Because of this cost-sharing structure, the health insurance plan would fall under a cost-sharing multiple-employer OPEB plan arrangement. However, the members have not committed to share the annual OPEB costs, actuarial accrued liabilities, plan assets, or unfunded actuarial accrued liabilities, and each member is receiving a separate actuarial report. Because the OPEB costs are not shared, each member's separate actuarial valuation falls under the accounting for single-employer OPEB plans. The health insurance plan does not issue separately stated, stand-alone financial statements.

An employee who is employed by the District and who is eligible to participate in the group health plan is covered. A covered individual who retires from the District, is at least age 55, and is currently participating in the group plan at the time of retirement is eligible for health insurance. Spousal and dependent coverage is provided as long as the required contributions are paid. Spouses may continue coverage after the retiree's coverage terminates until the spouse is eligible for Medicare. Non-spouse dependents may continue coverage until the dependent is eligible for Medicare. The eligible retiree must pay monthly contributions based on 100% of the full active employee premium rate. All coverage ceases when the retiree or spouse attains age 65 or becomes eligible for Medicare except for COBRA continuation if elected.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2010

NOTE 12 - POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Funding Policy

Retired employees must pay 100% of the premiums for his or her coverage. Under GASB 45, the District incurs an expense due to the implicit rate subsidy for retirees.

Annual OPEB Cost

For the year ended June 30, 2014, the District made contributions to the Plan of \$23,660 and the beginning balance of the OPEB obligation was \$25,355. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 were as follows:

ARC	\$	36,563
Interest in Net OPEB		1,737
Adjustment to ARC		<u>(2,206)</u>
Annual OPEB Cost		36,094
Contributions Made		<u>(23,660)</u>
Change in Net OPEB Obligation		12,434
Net OPEB Obligation at June 30, 2013		<u>25,355</u>
Net OPEB Obligation at June 30, 2014	\$	<u><u>37,789</u></u>

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 60,303	79.0%	\$ 25,355
6/30/2013	36,093	100.0%	25,355
6/30/2014	36,094	65.6%	37,789

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 trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2010

NOTE 12 - POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)

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

The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Projected Unit Credit actuarial cost method was used to determine the annual required contribution.

The actuarial value of assets must be determined based on some recognition of the fair market value of assets. Initially, the actuarial value of assets is to be equal to the fair market value of assets. This method will be formally adopted after decisions regarding the OPEB Plan's funding and investment policy are made.

The unfunded accrued liability is being amortized as a level dollar amount on an open basis over a period of 30 years.

The actuarial assumptions included:

- The assumed claims costs were determined from the insured premiums and underlying claim experience of the OPEB Plans and actuarial age adjustment factors.
- Health care cost trend rates were 7% for 2013, decreasing 1% each year to 2015 and after, which would be 5%.
- Investment return was calculated at 4.75% per year.
- Salary increases were calculated at 3.0% per year.
- Mortality was according to the RP 2000 Mortality Table.
- Retiree Participation rate was assumed to be 66.7% and initial spouse participation rate was assumed to be 33.3% for both male and female employees.
- Turnover rates were based on Scale T-6 of Actuary's Pension Handbook. Sample rates vary by age:

Age	Rate
20	7.9%
25	7.7%
30	7.4%
35	6.9%
40	6.1%
45	5.2%
50	3.6%
55	1.4%
60	0.1%

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2010

NOTE 12 - POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)

- Retirement rates vary by age, as follows:

<u>Age</u>	<u>Rate</u>
55	20.0%
56-57	5.0%
58-59	10.0%
60-61	20.0%
62	40.0%
63-64	10.0%
65 or Over	100.0%

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Potential Litigation

During the year ended June 30, 2009, the District cancelled a capital lease for computers due to the vendor not fulfilling the terms of the lease agreement due to filing for bankruptcy. However, a portion of the computers related to the lease with were delivered to the District. The District, along with several other school districts, is a plaintiff in an ongoing lawsuit resulting from the cancelled capital lease. The District made several attempts to return the computers which are being stored by the District as they were delivered incomplete and inoperable. The trustee of the bankrupt vendor has submitted claims against the District for an estimated value of the products delivered to the District in 2009. As of June 30, 2014, the litigation had not been resolved. The District has been in contact with the State's attorney regarding the matter; however, the amount of any liability owed is indeterminable at this time as the State's Attorney is negotiating claims with the trustee.

NOTE 14 - CONCENTRATIONS

The District is dependent upon grant revenues, property taxes and operating revenues from the State of South Dakota for its primary existence.

NOTE 15 - PRIOR PERIOD ADJUSTMENTS

During the year ended June 30, 2014, the District implemented GASB 65, *Items Previously Reported as Assets and Liabilities*. This statement broadens the reporting of deferred inflows and outflows to additional transactions that were previously reported as assets or liabilities and also required debt issue costs to be expended in the year incurred. The inclusion of additional assets and liabilities as deferred outflows and inflows did not cause any changes to the presentation of net position or fund balances. However, the District had previously capitalized debt issue costs in the governmental activities. The impact on net position as a result of implementing this standard was a reduction of \$144,970 as presented on the Statement of Activities. Fund balances were not impacted.

A liability was accrued at June 30, 2014 for Other Post Employment Benefits (OPEB) which are owed to future retirees. This liability is determined based on an actuarial valuation of potential future benefits payable, as discussed in Note 12. In prior years this liability was not added to the schedule of debt management determined the liability about to be immaterial. The inclusion of prior year benefits payable in the total OPEB liability resulted in a prior period adjustment as a reduction of net position of \$25,355 as presented on the Statement of Activities.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2014

NOTE 16 - NEW ACCOUNTING PRONOUNCEMENTS

During the year ended June 30, 2015, the District plans to implement GASB 68, *Accounting and Financial Reporting for Pensions*. This statement will require the District to report a liability for its portion of the unfunded liability related to the Pension Plan discussed in Note 9. The effects of the implementation of this standard cannot be readily determined.

NOTE 17 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Custer School District No. 16-1
Budgetary Comparison Schedule - General Fund - Budgetary Basis
For the Year Ended June 30, 2014

	Budgeted Original	Budgeted Amounts Final
REVENUES		
Revenue From Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 4,019,822	\$ 3,969,822
Gross Receipts Taxes	300,000	300,000
Penalties and Interest on Taxes	15,000	15,000
Cocurricular Activities	28,000	30,000
Earnings on Deposits	2,500	2,500
Other Local Revenue	98,000	96,000
Total Revenue From Local Sources	<u>4,463,322</u>	<u>4,413,322</u>
Revenue From Intermediate Sources:		
County Sources	85,000	85,000
Revenue in Lieu of Taxes	7,000	7,000
Total Revenue From Intermediate Sources	<u>92,000</u>	<u>92,000</u>
Revenue From State Sources:		
Unrestricted Grants-in-Aid	149,378	149,378
Other State Revenue	-	-
Total Revenue From State Sources	<u>149,378</u>	<u>149,378</u>
Revenue From Federal Sources:		
Unrestricted Grants-in-Aid	703,512	674,000
Restricted Grants-in-Aid	421,050	421,050
Total Revenue From Federal Sources	<u>1,124,562</u>	<u>1,095,050</u>
Total Revenue	<u>5,829,262</u>	<u>5,749,750</u>

See independent auditor's report and notes to required supplementary information.

Actual (Budgetary Basis)	Variance Positive (Negative)
\$ 4,344,781	\$ 374,959
320,968	20,968
18,825	3,825
25,147	(4,853)
6,037	3,537
<u>166,462</u>	<u>70,462</u>
<u>4,882,220</u>	<u>468,898</u>
100,908	15,908
<u>5,425</u>	<u>(1,575)</u>
<u>106,333</u>	<u>14,333</u>
148,693	(685)
<u>23,124</u>	<u>23,124</u>
<u>171,817</u>	<u>22,439</u>
673,977	(23)
<u>472,910</u>	<u>51,860</u>
<u>1,146,887</u>	<u>51,837</u>
<u>6,307,257</u>	<u>557,507</u>

See independent auditor's report and notes to required supplementary information.

Custer School District No. 16-1
Budgetary Comparison Schedule - General Fund - Budgetary Basis
(Continued)
For the Year Ended June 30, 2014

	Budgeted Original	Budgeted Amounts Final
EXPENDITURES		
Instructional Services:		
Regular Programs	2,849,937	2,856,436
Special Programs	194,622	194,622
Post-Secondary Occupational Programs	2,000	2,000
Total Instruction Services	<u>3,046,559</u>	<u>3,053,058</u>
Support Services:		
Pupils	212,242	212,242
Instructional Staff	156,950	163,949
General Administration	321,393	327,393
School Administration	371,291	371,292
Business	1,350,290	1,342,983
Total Support Services	<u>2,412,166</u>	<u>2,417,859</u>
Cocurricular Activities:		
Male Activities	64,070	64,070
Female Activities	47,573	47,573
Activity Transportation	70,227	70,228
Combined Activities	138,667	138,669
Total Cocurricular Activities	<u>320,537</u>	<u>320,540</u>
Other Nonprogrammed Costs and Contingencies	<u>50,000</u>	<u>36,660</u>
Total Expenditures	<u>5,829,262</u>	<u>5,828,117</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(78,367)
OTHER FINANCING SOURCES		
Insurance Proceeds	-	-
Total Other Financing Sources	-	-
NET CHANGE IN FUND BALANCES	-	(78,367)
FUND BALANCE - BEGINNING	<u>4,268,190</u>	<u>4,268,190</u>
FUND BALANCE - ENDING	<u>\$ 4,268,190</u>	<u>\$ 4,189,823</u>

See independent auditor's report and notes to required supplementary information.

<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
2,807,487	48,949
188,256	6,366
<u>2,000</u>	<u>-</u>
<u>2,997,743</u>	<u>55,315</u>
198,670	13,572
166,145	(2,196)
321,953	5,440
373,398	(2,106)
<u>1,384,725</u>	<u>(41,742)</u>
<u>2,444,891</u>	<u>(27,032)</u>
62,268	1,802
48,008	(435)
77,296	(7,068)
<u>134,238</u>	<u>4,431</u>
<u>321,810</u>	<u>(1,270)</u>
<u>38,483</u>	<u>(1,823)</u>
<u>5,802,927</u>	<u>25,190</u>
504,330	582,697
<u>85,423</u>	<u>85,423</u>
<u>85,423</u>	<u>85,423</u>
589,753	668,120
<u>4,268,190</u>	<u>-</u>
<u>\$ 4,857,943</u>	<u>\$ 668,120</u>

See independent auditor's report and notes to required supplementary information.

Custer School District No. 16-1
Budgetary Comparison Schedule - Capital Outlay Fund - Budgetary Basis
For the Year Ended June 30, 2014

	<u>Budgeted Original</u>	<u>Budgeted Amounts Final</u>
REVENUES		
Revenue From Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 2,152,678	\$ 2,152,678
Penalties and Interest on Taxes	6,000	6,000
Earnings on Deposits	2,500	2,500
Other Local Revenue	-	15,000
Total Revenue From Local Sources	<u>2,161,178</u>	<u>2,176,178</u>
Revenue From State Sources:		
Grants-in-Aid:		
Other State Revenue	-	-
Revenue From Federal Sources:		
Other Federal Revenue	<u>116,000</u>	<u>141,000</u>
Total Revenue	<u>2,277,178</u>	<u>2,317,178</u>
EXPENDITURES		
Instructional Services:		
Regular Programs	<u>147,400</u>	<u>174,650</u>
Support Services:		
Instructional Staff	17,000	17,000
School Administration		-
Business	<u>549,115</u>	<u>651,615</u>
Total Support Services	<u>566,115</u>	<u>668,615</u>
Cocurricular Activities:		
Combined Activities	<u>31,985</u>	<u>31,985</u>
Debt Services	<u>1,385,486</u>	<u>1,385,486</u>
Total Expenditures	<u>2,130,986</u>	<u>2,260,736</u>

See independent auditor's report and notes to required supplementary information.

Actual (Budgetary Basis)	Variance Positive (Negative)
\$ 2,274,263	\$ 121,585
8,646	2,646
1,226	(1,274)
<u>35,944</u>	<u>20,944</u>
<u>2,320,079</u>	<u>143,901</u>
<u>20,000</u>	<u>20,000</u>
<u>133,448</u>	<u>(7,552)</u>
<u>2,473,527</u>	<u>156,349</u>
<u>166,337</u>	<u>8,313</u>
8,556	8,444
204	(204)
<u>639,657</u>	<u>11,958</u>
<u>648,417</u>	<u>20,198</u>
<u>14,821</u>	<u>17,164</u>
<u>1,384,833</u>	<u>653</u>
<u>2,214,408</u>	<u>46,328</u>

See independent auditor's report and notes to required supplementary information.

Custer School District No. 16-1
Budgetary Comparison Schedule - Capital Outlay Fund - Budgetary Basis
(Continued)
For the Year Ended June 30, 2014

	<u>Budgeted Original</u>	<u>Budgeted Amounts Final</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>146,192</u>	<u>56,442</u>
OTHER FINANCING SOURCES		
Transfers Out	(166,000)	(166,000)
Insurance Proceeds	<u>-</u>	<u>-</u>
Total Other Financing Sources	<u>(166,000)</u>	<u>(166,000)</u>
NET CHANGE IN FUND BALANCES	(19,808)	(109,558)
FUND BALANCE - BEGINNING	<u>963,954</u>	<u>963,954</u>
FUND BALANCE - ENDING	<u>\$ 944,146</u>	<u>\$ 854,396</u>

See independent auditor's report and notes to required supplementary information.

Actual (Budgetary Basis)	Variance Positive (Negative)
<u>259,119</u>	<u>202,677</u>
(166,000)	-
<u>18,948</u>	<u>18,948</u>
<u>(147,052)</u>	<u>18,948</u>
112,067	221,625
<u>963,954</u>	<u>-</u>
<u>\$ 1,076,021</u>	<u>\$ 221,625</u>

See independent auditor's report and notes to required supplementary information.

Custer School District No. 16-1
Budgetary Comparison Schedule - Special Education Fund -
Budgetary Basis
For the Year Ended June 30, 2014

	<u>Budgeted Original</u>	<u>Budgeted Amounts Final</u>
REVENUES		
Revenue From Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 1,088,888	\$ 1,088,888
Penalties and Interest on Taxes	2,000	2,000
Earnings on Deposits		-
Other Local Revenue	15,000	15,000
Total Revenue From Local Sources	<u>1,105,888</u>	<u>1,105,888</u>
Revenue From State Sources:		
Grants-in-Aid:		
Restricted Grants-in-Aid	<u>15,950</u>	<u>15,950</u>
Revenue From Federal Sources:		
Grants-in-Aid:		
Restricted Grants-in-Aid	<u>201,028</u>	<u>201,028</u>
Total Revenue	<u>1,322,866</u>	<u>1,322,866</u>
EXPENDITURES		
Instructional Services:		
Special Programs	<u>930,041</u>	<u>929,941</u>
Support Services:		
Pupils	227,452	174,281
Special Education	<u>165,373</u>	<u>165,373</u>
Total Support Services	<u>392,825</u>	<u>339,654</u>
Other Nonprogrammed Costs	<u>-</u>	<u>-</u>
Total Expenditures	<u>1,322,866</u>	<u>1,269,595</u>
EXCESS OF REVENUES OVER EXPENDITURES	-	53,271
FUND BALANCE - BEGINNING	<u>104,627</u>	<u>104,627</u>
FUND BALANCE - ENDING	<u>\$ 104,627</u>	<u>\$ 157,898</u>

See independent auditor's report and notes to required supplementary information.

Actual (Budgetary Basis)	Variance Positive (Negative)
\$ 1,134,058	\$ 45,170
4,090	2,090
142	142
13,427	(1,573)
<u>1,151,717</u>	<u>45,829</u>
<u>-</u>	<u>(15,950)</u>
<u>212,609</u>	<u>11,581</u>
<u>1,364,326</u>	<u>41,460</u>
<u>854,253</u>	<u>75,688</u>
196,947	(22,666)
161,358	4,015
<u>358,305</u>	<u>(18,651)</u>
<u>7,913</u>	<u>(7,913)</u>
<u>1,220,471</u>	<u>49,124</u>
143,855	90,584
104,627	-
<u>248,482</u>	<u>90,584</u>

See independent auditor's report and notes to required supplementary information.

Custer School District No. 16-1
Notes to Required Supplementary Information
June 30, 2014

NOTE 1 - BASIS OF PRESENTATION

The Budgetary Comparison Schedules have been prepared on the modified accrual basis of accounting. The Budgetary Comparison Schedules present capital outlay expenditures within each function while the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds present capital outlay expenditures as a separate function.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

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

1. Prior to the first regular board meeting in May of each year, the school board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the school board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 of each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the school board must approve the budget for the ensuing fiscal year for each fund, except Trust and Agency Funds.
6. After adoption by the school board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated 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 District budget and may be transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets when monies are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds. Generally accepted accounting principles prescribe that budgetary information be presented for the General Fund and major special revenue funds of the District.

Custer School District No. 16-1
Schedule of Funding Progress for Retiree Health Insurance Coverage
June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2009	\$ -	\$ 578,043	\$ 578,043	0.0%	\$ 4,036,048	14.3%
7/1/2012	-	300,156	300,156	0.0%	3,709,529	8.1%

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SUPPLEMENTARY INFORMATION

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**Custer School District No. 16-1
School District Officials
June 30, 2014**

BOARD MEMBERS

Chairman - Tom Martin
Vice Chairman - Brian Lintz
Tanya Olson
Alan Webster
Paul Dinkins
Les Pinkerton
Denny McConnell

SUPERINTENDENT

Mark Naugle

BUSINESS MANAGER

Lisa Fluck

See independent auditor's report.

**Custer School District No. 16-1
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014**

CFDA Numbers	Direct Award	Major Program	Cluster/Program Name	Pass-through Entity	Amount
<u>U.S. Department of Agriculture</u>					
Child Nutrition Cluster:					
Non-cash Assistance (Commodities):					
10 . 555	N	Y	National School Lunch Program	S.D. Department of Education	\$ 13,376
Cash Assistance:					
10 . 553	N	Y	School Breakfast Program (Note 2)	S.D. Department of Education	22,066
10 . 555	N	Y	National School Lunch Program (Note 2)	S.D. Department of Education	<u>115,243</u>
Total Child Nutrition Cluster					<u>150,685</u>
Schools and Roads Cluster:					
10 . 665	N	N	School and Roads - Grants to States (Note 2)	Pennington and Meade Counties	146,546
10 . 666	N	N	School and Roads - Grants to Counties (Note 2)	Pennington and Meade Counties	<u>1,262</u>
Total Department of Agriculture					<u>298,493</u>
<u>U.S. Department of Interior</u>					
15 . 227	N	N	Distribution of Receipts to State and Local Governments (Note 2)	S.D. Department of Education	<u>55,124</u>
Total Department of Interior					<u>55,124</u>
<u>General Services Administration</u>					
39 . 003	N	N	Donation of Federal Surplus Personal Property (Note 3)	S.D. Federal Property Agency	<u>787</u>
Total General Services Administration					<u>787</u>
<u>U.S. Department of Education</u>					
84 . 010	N	Y	Title I Grants to Local Educational Agencies	S.D. Department of Education	184,465
84 . 048	N	N	Vocational Education - Basic Grants to States	S.D. Department of Education	12,223
84 . 367	N	N	Improving Teacher Quality State Grants	S.D. Department of Education	73,290
Special Education Cluster:					
84 . 027	N	Y	Special Education - Grants to States	S.D. Department of Education	206,602
84 . 173	N	Y	Special Education - Preschool Grants	S.D. Department of Education	<u>6,007</u>
Total Department of Education					<u>482,587</u>

See independent auditor's report.

<u>CFDA Numbers</u>	<u>Direct Award</u>	<u>Major Program</u>	<u>Cluster/Program Name</u>	<u>Pass-through Entity</u>	<u>Amount</u>
			<u>U.S. Department of Homeland Security</u>		
97 . 067	N	N	Homeland Security Grant Program	S.D. Department of Public Safety	<u>25,000</u>
			Total Department of Homeland Security		
					<u>25,000</u>
			Total Federal Financial Assistance		
					<u>\$ 861,991</u>

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

NOTE 2: Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received rather than federal expenditures.

NOTE 3: The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the District. (Original acquisition cost is provided by Federal Surplus Property. It is not what the District actually paid for the item.)

See independent auditor's report.