

ELK MOUNTAIN SCHOOL DISTRICT NO. 16-2
CUSTER COUNTY, SOUTH DAKOTA
FINANCIAL REPORT
FOR THE TWO FISCAL YEARS ENDING JUNE 30, 2014
WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

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NOTE: All figures shown in this financial report are in U.S. dollars.
For space considerations, the "\$" symbol is not used.

INDEPENDENT AUDIT SERVICES, PC

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School Board
Elk Mountain School District No. 16-2
Custer County, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying financial statements of governmental activities, business-type activities and each major fund of the Elk Mountain School District No. 16-2 (School District), Custer County, South Dakota as of June 30, 2014 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amount and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, I 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.

I believe that the audit evidence I obtained is sufficient and appropriate to provide a basis for my unmodified audit opinions on governmental activities, business-type activities and each major fund.

Unmodified Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund the Elk Mountain School District, Custer County, South Dakota, as of June 30, 2014, and the respective changes in its financial position and, where applicable, cash flows thereof for each of the years in the biennial period 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 (page 3 to 8) and the budgetary comparison schedule (page 31 to 35) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting by placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report (page 36) dated January 6, 2015 on my tests of Elk Mountain School District's compliance with certain provisions of laws, regulations, contracts and other matters and my consideration of its internal control over financial reporting. The purpose of that report is to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on compliance or internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's compliance and internal control over financial reporting.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota



January 6, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the Elk Mountain School District No. 16-2's (School District) annual financial report presents our discussion and analysis of the School District's financial performance during the two fiscal years ending June 30, 2014. Please read it in conjunction with the School District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Financial highlights for the Elk Mountain School District are as follows:

For the year ending:

	6-30-2014	6-30-2013
Revenue:		
Charges for goods and services	249	161
Operating grants	16,714	31,435
Capital grants	0	0
General receipts	388,968	396,778
	-----	-----
Total	405,931	428,374
	-----	-----
Expenses:		
Governmental	322,444	320,751
Business-type	377	1,073
	-----	-----
Total	322,821	321,824
	-----	-----
Increase in Net Position	83,110	106,550
Net Position:		
July 1, 2012		648,497

June 30, 2013	755,047	755,047
	-----	=====
June 30, 2014	838,157	
	=====	
Governmental Funds:		
General	348,934	416,771
Capital Outlay	(142,945)	120,242
Special Education	78,265	74,951
Accrued leave	(2,554)	(2,181)
Capital Assets	556,371	145,241
Business-Type Funds:		
Food Service	86	23
	-----	-----
Total	838,157	755,047
	=====	=====

During the year ending June 30, 2014 the School District:

- * Constructed a new building for \$426,309 from local funds.
- * Received \$93,571 from the federal government through the National Forest Lands program which is a decrease of \$4,224 from the prior year.

During the year ending June 30, 2013 the School District:

- * Received \$97,796 from the federal government through the National Forest Lands program which is a decrease of \$8,562 from the prior year.

BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

This financial report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement-34.

The financial report consists of three parts: (1) management's discussion and analysis (page 3 to 8), (2) the basic financial statements (page 9 to 30) and (3) required supplementary information (page 31 to 35). The basic financial statements include two types of statements that present the School District from two different financial points of view.

Government-wide financial statements (View #1):

The first two statements are government-wide financial statements that provide both long-term and short-term information about the School District's overall financial status.

Fund financial statements (View #2):

The remaining financial statements are fund financial statements that focus on significant operations of the governmental, enterprise, and fiduciary activities of the School District.

The governmental fund financial statements tell how general governmental services were financed in the short-term, as well as what remains for future spending. Governmental funds operated by the School District are the general fund, capital outlay fund, and special education fund.

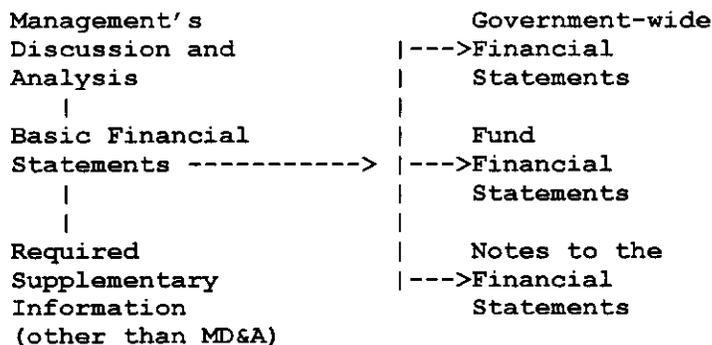
The enterprise fund financial statements offer short-term and long-term financial information about the activities of the School District that operate like a business. The enterprise fund operated by the School District is the food service fund.

The financial statements include notes that explain in more detail some of the information found in the financial statements. The financial statements are also followed by a section of required supplementary information that presents a budgetary analysis for the general fund and major special revenue funds.

Required Supplementary Information:

This Management's Discussion and Analysis (page 3 to 8) and the Budgetary Comparison Schedules (page 31 to 35) are financial information required to be presented by GASB. Such information provides readers of this report with additional data that supplements the government-wide statements and fund financial statements. The Budgetary Comparison Schedules are presented on a budgetary basis of accounting, which reports capital expenditures within their respective expenditure function rather than as a separate capital outlay expenditure.

Here is an overview of the School District's financial statements.



Here is a summary of the major features of these financial statement.

	Government-wide	Fund Statements		
	Statements	Governmental Funds	Enterprise Funds	Fiduciary Funds (if any)
Scope	Entire School (except fiduciary funds)	School Activities except Enterprise (food service) and Fiduciary (student organizations)	Activities operated like a private business (food service)	School's custody of money that belongs to others
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
Basis of Accounting	Accrual	Modified accrual	Accrual	Accrual
Measurement Focus	Economic resources	Current financial resources	Economic resources	Economic resources
Types of Assets & Liabilities	All - Financial and capital, short- and long-term	Only current financial assets and liabilities No capital assets	All - Financial and capital, short- and long-term	All - Financial and capital (if any), short- and long-term
Types of Revenue and Expenditures or Expense	All - Regardless of when cash is received	Revenues when cash is received during year or within 60 days of year-end Expenditures when goods or services are received and payment is due during year or soon after year-end	All - Regardless of when cash is received	All - Regardless of when cash is received

GOVERNMENT-WIDE STATEMENTS

(Reporting the School District as a whole)

The government-wide statements (page 9 to 11) report information about the School District as a whole using accounting methods similar to those used for private companies. There are two government-wide statements: the Statement of Net Position and the Statement of Activities.

The Statement of Net Position includes all of the government's assets and liabilities. Net position is the difference between assets and liabilities. Changes in these accounts is one way to measure the school's financial health. Increases or decreases in net position measures improvements or declines in the school's financial health. To assess the school's overall financial health you also need to consider other factors such as changes in the student enrollment, property tax base and/or changes in federal and state grants and aid.

The Statement of Activities includes all of the year's revenues and expenses. You will notice that expenses are listed in the first column by program. Revenues related each program are reported to the right of the expense. The result is a net revenue/expense for each program. After listing program activity, general receipts of the school are listed, which include all taxes and interest earned.

The government-wide financial statements have two broad categories of information: governmental activity and business-type activity.

The governmental activities include (1) basic instructional services such as elementary, high school, and special education programs, (2) support services such as guidance, library, administration, and transportation, and (3) extra-curricular activities such as sports and music. Property taxes, state and federal grants, and interest earnings finance most of these activities.

The business-type activities account for the School District's food service lunch program. These programs are funded in part by user fees and in part by state and federal grants.

FUND FINANCIAL STATEMENTS

(Reporting the School District's most significant funds)

The fund financial statements (page 12 to 16) provide more detailed information about the School District's most significant funds, not the School District as a whole. Funds are accounting tools used to keep track of the receipt and disbursement of School District's resources. State law requires the use of some funds and the school board establishes other funds to manage money for a specific purpose, like a capital project fund for a new building.

The fund financial statements show information in three broad categories: governmental, enterprise (business-type), and fiduciary.

Governmental funds: Most of the School District's basic services are included in the governmental funds, which focus on (1) how cash, and other financial assets which can readily be converted into cash, flow in and out of that fund, and (2) the balances left at year-end that are available for spending in the next year. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources available for spending in the near future to finance the School 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 to reconcile the differences between the governmental fund statements and the government-wide statements.

Enterprise fund: Services for which the School District charges the customer a fee are generally reported in enterprise funds. Enterprise funds, like the government-wide statements, provide both short-term and a long-term financial information. The food service fund is the only enterprise fund maintained by the School District.

MATERIAL CHANGES IN STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

(Material changes for governmental activities = changes greater than \$30,000)

(Material changes for business-type activities = changes greater than \$ 5,000)

	Increase (Decrease)	Reason
<u>Year Ending June 30, 2014</u>		
Governmental Activities:		
Current assets	(329,000)	Cash used to build new building.
Capital assets	411,000	New building.
Business-type Activities:		
None to report		
<u>Year Ending June 30, 2013</u>		
Governmental Activities:		
Current assets	136,000	Excess revenue.
Support cost	33,000	Professional fees for new building.
Business-type Activities:		
None to report		

SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

The School District's general fund budget for FY14 is \$285,962, which is a decrease of \$18,344 or 6.03% over FY13. There was one supplemental appropriations to the general fund budget for \$15,805 spread across several line items. See page 31 for more information.

The School District's general fund budget for FY13 is \$304,306, which is a decrease of \$2,412 or 0.79% over FY12. There were no supplemental appropriations to the general fund budget in FY13. See page 32 for more information.

SIGNIFICANT CAPITAL ASSET ACTIVITY

Significant capital asset activity is reported above. At June 30, 2014, the School District had invested \$556,371 in a broad range of capital assets, including land, buildings, improvements and equipment. This amount represents a net increase (including additions and deductions) of \$381,941 or 219% from June 30, 2012. See page 30 for more information.

SIGNIFICANT LONG-TERM DEBT ACTIVITY

The School District's accrued sick leave is \$2,554. See note 7 for more information.

CURRENTLY KNOWN FACTS

In the 2014-2015 school year the school Board authorized the provision for a pre-school operated by the district at the elementary school. Early enrollment has been encouraging and our new school building is conducive to these additional young students.

The district is in its third year of the Virtual High School. Because our school was not provided a T-1 at the time other South Dakota school districts were "wired", this district has struggled to provide our high school internet with sufficient band width to support the streaming video required for educational videos purchased as part of the virtual school curriculum. In December the school made some modifications from satellite to a mobile telephone "hot spot". Only time will tell if this modification will provide sufficient band width.

The district is entering its first full year in our new elementary school building. This building replaces the modular school building that exceeded expectations for its years of service. The new building provides a place for our server, inside water pump space and a shower facility for those students who are unable to bath on a regular basis. The Custer VFW provided a new flag pole at the building's dedication.

On July 8, 2014 the Board approved an opt-out resolution of \$90,000 for the next three years.

Student enrollment for the past several years is:

FY09 - 32	FY12 - 8	FY15 - 9
FY10 - 26	FY13 - 8	
FY11 - 10	FY14 - 6	

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the School District's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Elk Mountain School District's business office at 10222 Valley Road, Dewey, SD 57735.

TABLE 1 - NET POSITION
 BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 AS OF JUNE 30, 2014, JUNE 30, 2013, AND JUNE 30, 2012

	Governmental Activities			Business-Type Activities			Total Government		
	FY14	FY13	FY12	FY14	FY13	FY12	FY14	FY13	FY12
Current assets	415	744	608	0	1	1	415	745	609
Capital assets	556	145	174				556	145	174
Total assets	971	889	782	0	1	1	971	890	783
Current liabilities	18	19	20		1		18	20	20
Deferred inflows	115	115	115				115	115	115
Total liabilities & inflo	133	134	135	0	1	0	133	135	135
Net position:									
Capital, net of debt	556	145	174				556	145	174
Restricted	78	196	163				78	196	163
Unrestricted	204	414	310	0	0	1	204	414	311
Total net position	838	755	647	0	0	1	838	755	648

TABLE 2 - CHANGES IN NET POSITION
 BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 FOR THE YEARS ENDING JUNE 30, 2014, JUNE 30, 2013, AND JUNE 30, 2012

	Governmental Activities			Business-Type Activities			Total Government		
	FY14	FY13	FY12	FY14	FY13	FY12	FY14	FY13	FY12
Revenues:									
Program revenues:									
Charges for services							0	0	0
Grants and contribution	16	31	18				16	31	18
General revenues:									
All taxes	270	282	267				270	282	267
Federal sources	114	125	127				114	125	127
State sources	1	2					1	2	0
Interest earnings	1	1	2				1	1	2
Other	3	5	4				3	5	4
Total revenues	405	446	418	0	0	0	405	446	418
Expenses:									
Instruction	189	163	163				189	163	163
Support	133	157	124				133	157	124
Food service					1		0	1	0
Total expenses	322	320	287	0	1	0	322	321	287
Increase (decrease) in net position	83	126	131	0	(1)	0	83	125	131
Other financing sources (uses):									
Loss on sale of surplus property		(18)					0	(18)	0
Net change in net positio	83	108	131	0	(1)	0	83	107	131
Net position:									
June 30, 2011			516			1			517
June 30, 2012		647	647		1	1		648	648
June 30, 2013	755	755		0	0		755	755	
June 30, 2014	838			0			838		

ELK MOUNTAIN SCHOOL DISTRICT No. 16-2

STATEMENT OF NET POSITION
AS OF JUNE 30, 2014

	Primary Government		Total
	Governmental Activities	Business- Type Activities	
Assets:			
Current assets:			
Cash and cash equivalents	235,715	86	235,801
Certificates of Deposit	59,941		59,941
Receivables:			
Property taxes - current	114,994		114,994
Property taxes - delinquent	4,619		4,619
Internal balances	0		0
Total current assets	415,269	86	415,355
Capital assets:			
Land	5,400		5,400
Buildings	572,657		572,657
Equipment	47,452		47,452
Accumulated depreciation	(69,138)		(69,138)
Total capital assets	556,371	0	556,371
Total assets	971,640	86	971,726
Liabilities:			
Current liabilities:			
Accounts payable	3,092		3,092
Contracts payable	10,583		10,583
Payroll deductions payable	2,346		2,346
Noncurrent liabilities due in one year:			
Accrued leave	2,554		2,554
Total liabilities	18,575	0	18,575
Deferred Inflows of Resources:			
Taxes levied for future period	114,994		114,994
Total deferred inflows of resources	114,994	0	114,994
Net position:			
Net invested in capital assets	556,371		556,371
Restricted for:			
Capital outlay	0		0
Special education	78,265		78,265
Unrestricted	203,435	86	203,521
Total net position	838,071	86	838,157

See accompanying notes.

ELK MOUNTAIN SCHOOL DISTRICT No. 16-2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDING JUNE 30, 2014

Functions/Programs:	Program Revenues			Net Revenue (Expense) and Changes in Net Position			
	Expenses	Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Primary government:							
Governmental activities:							
Instruction	189,243		16,523		(172,720)		(172,720)
Support services	133,201				(133,201)		(133,201)
Total governmental activities	322,444	0	16,523	0	(305,921)	0	(305,921)
Business-type activities:							
Food service	377	249	191			63	63
Total primary government	322,821	249	16,714	0	(305,921)	63	(305,858)
General revenue:							
Property taxes					263,831		263,831
Gross receipts tax					5,703		5,703
Revenue from federal sources					114,495		114,495
Revenue from state sources:							
State apportionment					805		805
Other					186		186
Revenue from county sources					1,686		1,686
Interest earnings					737		737
Other general revenues					1,525		1,525
Transfers					0	0	0
Total general revenue and transfers					388,968	0	388,968
Change in net position					83,047	63	83,110
Net position, July 1, 2013					755,024	23	755,047
Net position, June 30, 2014					838,071	86	838,157

See accompanying notes.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDING JUNE 30, 2013

Functions/Programs:	Program Revenues			Net Revenue (Expense) and Changes in Net Position			
	Expenses	Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Primary government:							
Governmental activities:							
Instruction	163,366		31,151		(132,215)		(132,215)
Support services	157,385				(157,385)		(157,385)
Total governmental activities	320,751	0	31,151	0	(289,600)	0	(289,600)
Business-type activities:							
Food service	1,073	161	284			(628)	(628)
Total primary government	321,824	161	31,435	0	(289,600)	(628)	(290,228)
General revenue:							
Property taxes					274,066		274,066
Gross receipts tax					8,051		8,051
Revenue from federal sources					124,495		124,495
Revenue from state sources							
State apportionment					1,150		1,150
Other					785		785
Revenue from county sources					2,204		2,204
Interest earnings					1,409		1,409
Other general revenues					2,487		2,487
Loss on sale of surplus property					(17,869)		(17,869)
Total general revenue and transfers					396,778	0	396,778
Change in net position					107,178	(628)	106,550
Net position, July 1, 2012					647,846	651	648,497
Net position, June 30, 2013					755,024	23	755,047

See accompanying notes.

ELK MOUNTAIN SCHOOL DISTRICT No. 16-2

BALANCE SHEET -- GOVERNMENTAL FUNDS
AS OF JUNE 30, 2014

	General Fund	Capital Outlay Fund	Special Education Fund	Total Governmental Funds
Assets:				
Cash and cash equivalents	178,026	0	57,689	235,715
Certificates of deposit	33,364	6,134	20,443	59,941
Receivables:				
Property taxes - current	98,848	12,601	3,545	114,994
Property taxes - delinquent	3,991	495	133	4,619
Due from capital outlay fund	149,574			149,574
Total assets	463,803	19,230	81,810	564,843
Liabilities:				
Accounts payable	3,092			3,092
Contracts payable	10,583			10,583
Payroll deductions payable	2,346			2,346
Due to general fund		149,574		149,574
Total liabilities	16,021	149,574	0	165,595
Deferred Inflows of Resources:				
Taxes levied for future period	98,848	12,601	3,545	114,994
Unavailable revenue:				
Property taxes - delinquent	3,991	495	133	4,619
Total deferred inflows of resources	102,839	13,096	3,678	119,613
Fund Balances (Deficit):				
Nonspendable				0
Restricted			78,132	78,132
Committed				0
Assigned				0
Unassigned	344,943	(143,440)		201,503
Total fund balance	344,943	(143,440)	78,132	279,635
Total liabilities, deferred inflow of resources and fund balance	463,803	19,230	81,810	564,843

Reconciliation of the above balance sheet - governmental funds
to the government-wide statement of net position.

Total fund balance - governmental funds (above) 279,635

Amounts reported in the government-wide statement of net
position are different because:

Capital assets used in governmental activities are not financial
resources and therefore not reported as assets in governmental
funds. Therefore: Add the cost of capital assets 625,509
Subtract accumulated depreciation (69,138)

Long-term liabilities are not due and payable in the current
period. Therefore, subtract the accrued leave liability: (2,554)

Assets such as taxes receivable (delinquent) are not available
to pay of current period expenditures and therefore are deferred
in the funds. 4,619

Total net position on government-wide statement of net position 838,071

See accompanying notes.

ELK MOUNTAIN SCHOOL DISTRICT No. 16-2

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS
FOR THE TWO YEARS ENDING JUNE 30, 2014

	General Fund	Capital Outlay Fund	Special Education Fund	FY14 Total Governmental Funds	General Fund	Capital Outlay Fund	Special Education Fund	FY13 Total Governmental Funds
Revenue:								
Revenue from local sources:	-----	-----	-----	-----	-----	-----	-----	-----
Taxes:								
Ad valorem taxes	212,387	38,274	8,963	259,624	214,400	41,856	10,404	266,660
Prior year ad valorem tax	5,146	961	363	6,470	4,514	499	241	5,254
Gross receipts	5,703			5,703	8,051			8,051
Penalties and interest	1,830	297	134	2,261	1,751	290	111	2,152
Interest earned	505	10	222	737	1,167	21	221	1,409
Other revenue from local sources:								
Other	1,526			1,526	2,487			2,487
Total revenue from local sources:	227,097	39,542	9,682	276,321	232,370	42,666	10,977	286,013
Revenue from intermediate sources:								
County sources:								
County fines apportionment	1,686			1,686	2,204			2,204
Revenue from state sources:								
Unrestricted grants-in-aid	991			991	1,935			1,935
Revenue from federal sources:								
Unrestricted grants-in-aid	114,495			114,495	124,495			124,495
Restricted grants-in-aid	16,523			16,523	31,151			31,151
Total revenues	360,792	39,542	9,682	410,016	392,155	42,666	10,977	445,798
Expenditures:								
Instruction:								
Regular programs:								
Elementary school	94,204			94,204	95,661			95,661
Summer school	9			9	1,615			1,615
High school	80,854			80,854	53,188			53,188
Special programs:								
Programs for special educ.			1,990	1,990			775	775
Educ. deprived (Title I)	2,946			2,946	5,989			5,989
Total instruction	178,013	0	1,990	180,003	156,453	0	775	157,228
Support services:								
Pupils:								
Guidance	6,450			6,450	4,433			4,433
Health	80			80				0
Special education			3,780	3,780			2,836	2,836
Instruction:								
Improvement of instruction	1,000			1,000	1,986			1,986
Technology coordinator	10,327			10,327				0
General administration:								
Board of Education	21,441			21,441	37,737	20,251		57,988
Executive administration	28,013			28,013	34,216			34,216
Business:								
Fiscal services	28,438			28,438	33,259			33,259
Facility acquisition		2,270		2,270				0
Operations and maintenance	24,194			24,194	18,309			18,309
Pupil transportation	897			897	1,147			1,147
Total support services	120,840	2,270	3,780	126,890	131,087	20,251	2,836	154,174
Capital outlay:		426,309		426,309				0
Total expenditures	298,853	428,579	5,770	733,202	287,540	20,251	3,611	311,402
Excess of revenues over (under) expenditures	61,939	(389,037)	3,912	(323,186)	104,615	22,415	7,366	134,396

(continued)

ELK MOUNTAIN SCHOOL DISTRICT No. 16-2

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS
FOR THE TWO YEARS ENDING JUNE 30, 2014

	General Fund	Capital Outlay Fund	Special Education Fund	FY14 Total Governmental Funds	General Fund	Capital Outlay Fund	Special Education Fund	FY13 Total Governmental Funds
	-----	-----	-----	-----	-----	-----	-----	-----
Other financing sources (uses):								
Transfer in		127,072		127,072				0
Transfer (out)	(127,072)			(127,072)				0
Sale of surplus property				0		2,600		2,600
Net change in fund balance	(65,133)	(261,965)	3,912	(323,186)	104,615	25,015	7,366	136,996
Fund balance (deficit):								
June 30, 2012					305,461	93,510	66,854	465,825
June 30, 2013	410,076	118,525	74,220	602,821	410,076	118,525	74,220	602,821
June 30, 2014	344,943	(143,440)	78,132	279,635	=====	=====	=====	=====

Reconciliation of the above statement of revenues, expenditures, and changes in fund balances to the government-wide statement of activities.

Net change in governmental fund balances (above) (323,186) 136,996

Capital outlays are reported in governmental funds as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. Therefore:

Add the cost of: new building 426,309
 Subtract depreciation taken on all capital assets (15,179) (8,719)
 Subtract loss on sale of modular trailer (20,469)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Therefore:

Subtract prior year delinquent taxes (9,143)
 Add current year delinquent taxes 4,619

Repayment of debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Therefore:
 Subtract current year increases in accrued leave (373) (630)

Change in net position on government-wide statement of activities 83,047 107,178

See accompanying notes.

ELK MOUNTAIN SCHOOL DISTRICT No. 16-2

STATEMENT OF NET POSITION - ENTERPRISE FUND
AS OF JUNE 30, 2014

	Food Service Fund 6-30-14 -----
Assets:	
Current assets:	
Cash and equivalents	86

Total assets	86
	=====
Current liabilities:	
None	0

Total liabilities	0
	=====
Net position:	
Unrestricted	86

Total net position	86
	=====

See accompanying notes.

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - ENTERPRISE FUND
FOR THE YEAR ENDING JUNE 30, 2013
FOR THE YEAR ENDING JUNE 30, 2014

	Food Service Fund 6-30-14 -----	Food Service Fund 6-30-13 -----
Operating revenue:		
Sales to pupils	249	161
	-----	-----
Total operating revenue	249	161
	-----	-----
Operating expense:		
Food preparation	377	1,073
	-----	-----
Total operating expenses	377	1,073
	-----	-----
Operating income (loss)	(128)	(912)
Nonoperating revenue (expense):		
Federal source:		
Cash reimbursement	191	284
	-----	-----
Total nonoperating revenue (expense)	191	284
	-----	-----
Income (loss) before contributions	63	(628)
Capital contributions:	0	0
	-----	-----
Change in net position	63	(628)
Net position:		
June 30, 2012		651

June 30, 2013	23	23
	-----	=====
June 30, 2014	86	
	=====	

See accompanying notes.

ELK MOUNTAIN SCHOOL DISTRICT No. 16-2

STATEMENT OF CASH FLOWS - ENTERPRISE FUND
 FOR THE YEAR ENDING JUNE 30, 2014
 FOR THE YEAR ENDING JUNE 30, 2013

	Food Service Fund 6-30-14 -----	Food Service Fund 6-30-13 -----
Cash flows from:		
Operating activities:		
Receipts from customers	249	161
Cash paid for employees	0	0
Payments to suppliers	(977)	(473)
Net cash provided (used) by operating activities	----- (728)	----- (312)
Noncapital financing activities:		
Grant cash reimbursements, federal	191	284
Capital financing activities:		
None	0	0
Investing activities:		
Interest received (none)	0	0
Net increase (decrease) in cash and cash equivalents	----- (537)	----- (28)
Cash and cash equivalents:		
June 30, 2012		651
June 30, 2013	623	----- 623
June 30, 2014	----- 86 =====	=====
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	(128)	(912)
Change in operating accounts:		
Accounts payable	(600)	600
Net cash provided (used) by operating activities	----- (728) =====	----- (312) =====
Noncash investing, capital and financing activities: None		

See accompanying notes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Reporting Entity:

The funds and account groups included in this report are controlled by or dependent upon the Elk Mountain School District's (School District) Board of Education.

The School District's officials at June 30, 2014 are:

Board Members:	Superintendent:
Joann Boggs, President	Suzy Ostenson
Nancy Christensen	
Pat Hollenbeck	Business Manager:
Travis Paulton	Carole Boos
Shaun Pitts	

The reporting entity of the School District consists of (1) 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; (2) those organizations for which the primary government is financially accountable; and (3) 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.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The School District is financially accountable if its governing board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on the School District (the primary government). The School District may also be financially accountable for another organization if that organization is fiscally dependent on the School District unless that organization can, without the approval of the School District: (1) set its own budget; (2) determine its own rates or charges; and (3) borrow money.

Based upon the application of these criteria, the Elk Mountain School District does not have any component units.

b. Basis of Presentation:

Government-wide Financial Statements:

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

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the School District's governmental activities and for each segment of School District's business-type activities. Direct expenses are associated with a specific program or function and are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the program 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 and interest, are presented as general revenues.

Fund Financial Statements:

The fund financial statements include specific information about individual funds used by the reporting entity. Each fund is considered a separate accounting entity with a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, enterprise, and fiduciary (if any). An emphasis is placed on major funds within the governmental and enterprise categories. A fund is considered major if it is the primary operating fund of the School District or if it meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues, or expenditures/expenses) for all funds of that category (that is, total governmental or total enterprise), and
- b. The same element that meets the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.
- c. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's official believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

The School District has elected to classify all of its funds as major funds. School District funds are described below within their respective fund type:

Governmental Funds

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

Special Revenue Fund Type - special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes. The School District has the following special revenue funds:

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

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

Enterprise Funds

Enterprise Fund Types - enterprise funds are used to account for activity for which a fee is charged to external users for goods or services. The School District has the following enterprise fund:

Food service fund - a fund used to record financial transactions related to the School District's food service operations. This fund is financed by user charges and grants and is a major fund.

Fiduciary Funds

Fiduciary are never considered to be major funds.

Agency fund type - agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature, they do not involve the measurement of results of operations. During the FY13 and FY14 school years, the School District did not maintain any agency funds to hold assets in a trustee capacity for various classes, clubs, etc.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "what" 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:

Both governmental and business-type activities are presented using the "economic resources" measurement focus, applied on the accrual basis of accounting.

The "economic resources" measurement focus includes all assets and liabilities (whether current or noncurrent, financial, or nonfinancial) on the balance sheet. Operating statements use the flow of all economic resources to present operating income, changes in net position, and cash flows during the accounting period. This measurement focus uses the term "net position" to describe its equity at the end of the accounting period.

Fund Financial Statements:

All governmental funds are presented using the "current financial resources" measurement focus and the modified accrual basis of accounting.

The "current financial resources" measurement focus includes only current financial assets and liabilities on the balance sheet. Operating statements present sources and uses of available spendable financial resources during the accounting period. This measurement focus uses the term "fund balance" to describe its equity at the end of the accounting period. It is a measure of available spendable financial resources.

Enterprise and fiduciary funds are presented using the "economic resources" measurement focus (described above) and the accrual basis of accounting.

Basis of Accounting

Government-wide Financial Statements:

In the government-wide financial statements, the accrual basis of accounting is used for both governmental and business-type activities in the Statement of Net Position and Statement of Activities. 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:

In the fund financial statements, all governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, which for the School District, is 60 days. The revenues which are accrued at June 30, 2013 are grants and other accounts receivable.

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

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due. However, the Elk Mountain School District budgets for, and makes payment of, debt obligations (if any) due on July 1st as of June 30th, the end of the School District's fiscal year.

All enterprise funds and fiduciary funds are accounted for using the accrual basis of accounting, the same as in the government-wide financial statements. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

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

In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net residual amounts due between governmental and business-type activities, which are presented as "Internal Balances" (if any).

Fund Financial Statements:

In the fund financial statements, noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by nonspendable fund balance which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources."

Fund Financial Statements:

In the fund financial statements, noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by nonspendable fund balance which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources."

e. Interfund Transactions:

Transactions that constitute reimbursements to a fund for disbursements made from it, and that are properly applicable to another fund, are recorded as a disbursement in the reimbursing fund and as reductions of disbursements in the fund that is reimbursed. All other interfund transactions are reported as transfers.

f. Cash and Cash Equivalents:

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

g. Capital Assets and Infrastructure assets:

Capital assets include land, buildings, improvements, and equipment, and all other tangible or intangible assets that are used in operations, which have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets. Infrastructure assets, if any, are classified as "Improvements Other than Buildings."

Government-wide Financial Statements:

In the government-wide financial statements, capital assets are accounted for on the accrual basis of accounting. Capital asset purchases are capitalized and not expensed. Instead, capital purchases are expensed over the life of the asset as depreciation or amortization.

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

The total June 30, 2014 balance of capital assets for governmental activities include approximately 0% for which the costs were determined by estimates of the original costs. The total June 30, 2013 balance of capital assets for business-type activities includes approximately 0% for which the costs were determined by estimates of the original costs. The estimated original costs were established by appraisals.

Interest cost incurred during construction of general capital assets are not capitalized with other capital asset cost. Interest cost incurred during construction of enterprise capital assets are capitalized with other capital asset cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide statement of activities and the enterprise fund

statement of revenue, expenses and changes in net position. Accumulated depreciation is reported on the government-wide statement of net position and on the enterprise fund's statement of net position. See also page 30.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation method, and estimated useful lives of capital assets reported in the government-wide statements and enterprise funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Life in Years
	-----	-----	-----
Land	All	N/A	N/A
Buildings/structures	50,000	Straight-line	50
Improvements	25,000	Straight-line	10-30
Equipment	5,000	Straight-line	5-25
Equipment - food service	1,000	Straight-line	5-20

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, governmental funds account for capital asset purchases as expenditures of the appropriate governmental fund. Enterprise funds account for capital asset purchases on the accrual basis of accounting, the same as in the government-wide statements.

h. Long-term Liabilities:

Government-wide Financial Statements:

In the government-wide financial statement, all long-term liabilities to be repaid from governmental or business-type resources are reported as liabilities. Long-term liabilities (due within one year) consist of accrued leave.

Fund Financial Statements:

In the fund financial statements, governmental debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. Enterprise fund long-term debt (if any) is reported as a liability, the same as in the government-wide statements.

i. Program Revenues and General Revenues:

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

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

General revenues include all revenues not specifically earmarked for a specific program. General revenues include all taxes, investment earnings, unrestricted receipts from federal, state, or county governments, and miscellaneous revenues not related to a program. These revenues are not restricted and can be used for the regular operation of the School District.

j. Deferred Inflows and Deferred Outflows of Resources

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

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

k. Enterprise Fund Revenue and Expense Classifications:

In the government-wide and fund financial statements, enterprise 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.

1. Equity Classifications:

Government-wide Financial Statements:

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

1. Net Invested in Capital Assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any capital outlay certificate payable, capitalized leases payable, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position - Consists of net position with constraints placed on their use either by (a) external groups such as creditor, grantor, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position - Other net position that does not meet the criteria of 1 or 2 above.

Fund Financial Statements:

Governmental fund equity is classified as "Fund Balance", and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components. Enterprise fund equity is classified as "Net Position", the same as in the government-wide financial statements. Fiduciary fund equity (except for agency funds, which have no fund equity) is reported as "Net Position" held in trust for a purpose.

m. Application of Net Position:

It is the School District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred which can be charged to either restricted or unrestricted net position.

n. Allowance for Doubtful Accounts:

Because write-off of uncollected taxes or student meals is minimal, is it not considered necessary to establish an estimated allowance for doubtful accounts.

o. Fund Balance Classification Policies and Procedures:

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

- * Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- * Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation.
- * Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed (or modified or rescinded) by the government through formal action at the highest level of decision making authority and does not lapse at year-end.
- * Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by School Board, Superintendent, or Business Manager.
- * Unassigned - includes positive fund balance within the general fund which has not been classified within the above categories and negative fund balances in other governmental funds.

Elk Mountain School District fund balance classifications are made up of:

<u>Fund Balance Classifications</u>	<u>Account or Fund</u>	<u>Authority or Action</u>	<u>Amount</u>
Nonspendable	None		0
Restricted	Special Education	Statute	78,132
Committed	None		0
Assigned	None		0
Unassigned	Capital Outlay	Statute	(143,440)
Unassigned	General		344,943

			279,635

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

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

The purpose of each special revenue fund and revenue source is:

Special Revenue Fund:	Revenue Source: (see page 13)
* Capital Outlay	Property taxes
* Special Education	Property taxes

p. Accounting Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual amounts could differ from these estimates. Following are the estimates made by management during the year:

- * Allowance for doubtful accounts - estimated uncollectables
- * Inventory - estimated fair market value
- * Depreciation - estimated service lives

2. CAPITAL OUTLAY FUND EXPENDITURES IN EXCESS OF ALLOWED AMOUNT

SDCL 13-16-6 limits the amount of insurance cost that can be charged to the capital outlay fund to 45% of current year tax receipts. However, if the current year capital outlay fund tax levy is more than the School District's 2008 capital outlay fund tax levy, the current year insurance cost charged to the capital outlay fund cannot be more than 45% of what the current year capital outlay fund tax receipt would be using the School District's 2008 capital outlay fund tax levy. It is noted that in FY13 the School District exceed the amount of insurance cost it could charge to the capital outlay fund by \$8,510. No SDCL 13-16-6 costs were charged to the capital outlay fund in FY14.

3. DEPOSITS, INVESTMENTS AND RISK

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

Deposits - The School District deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15 and 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 FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or better, or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost, plus interest, if the account is the add-on type.

Actual bank balances at June 30, 2014 were as follows: Insured \$298,919, Collateralized ** \$0, for a total of \$298,919.

** Uninsured, collateral jointly held by state's/school's agent in the name of the state and the pledging financial institution.

The carrying amount of these deposits at June 30, 2014 was \$295,742.

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

For the two years ending June 30, 2014, the School District had no investments. Certificates of deposit, with a term to maturity of greater than 3 months when purchased, were insured or collateralized and are considered deposits.

Investment Risk - State law limits eligible investments for schools as discussed above. The School District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - the School District places no limit on the amount that may be deposited/invested in any one institution. All School District deposits are in First Interstate Bank.

Custodial Credit Risk (Deposits) - The risk that, in the event of a depository failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At June 30, 2014, the School District's deposits in financial institutions were not exposed to custodial credit risk.

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

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

4. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year. Allowances for estimated uncollectible accounts are not material to these financial statements.

5. TRANSFERS, DUE FROM/TO OTHER FUNDS, DEFICIT FUND BALANCE

In FY14 the general fund transferred federal dollars of \$127,072 to the capital outlay fund for cost related to the new building. Also in FY14, the general fund spent \$149,574 to cover capital outlay fund costs related to the new building. The capital outlay fund will repay the general fund from future federal forest service revenue. At June 30, 2014, the capital outlay fund had a deficit fund balance of \$143,440 which will be eliminated from future federal forest service revenue.

6. CHANGES IN CAPITAL ASSETS (see schedule one)

A summary of changes in capital assets for the two years ending June 30, 2014 is found on schedule one at the end of these footnotes.

There is no construction-in-progress at June 30, 2014.

7. CHANGES IN LONG-DEBT

Changes in long-term debt is for accrued leave, which was at:

6-30-2012	\$1,511
6-30-2013	2,181
6-30-2014	2,554

The School District has no short-term or conduit debt.

8. RESTRICTED NET POSITION

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

Fund	Restricted by	Governmental Activities Amount	Business-type Activities Amount
Special Education	Statute	78,265	0
		-----	-----
		78,265	0

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. SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report is available from SDRS at PO Box 1098, Pierre, SD 57501 or call 605-773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the years ending June 30, 2014, 2013, and 2012 were \$4,069, \$3,960 and \$4,101 (employer's share) respectively, equal to the required contribution each year.

The School District does not have any "Other Post Employment Benefits" except COBRA.

10. PROPERTY TAXES

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

School District property tax revenue 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 not susceptible to accrual, has been reported as deferred revenue in both the government-wide financial statements and the fund 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". However, because property taxes are payable on April 30 and October 31 each year, about 1/2 of the property tax levy is collected by June 30, to finance the current year's appropriations, and 1/2 is collected after June 30, to finance the next year's appropriations.

Consequently, the School District considers all unpaid property tax levies at June 30 to be for the next year's appropriation. This entire amount is deferred in both the government-wide financial statements and the fund financial statements. Any delinquent property taxes received after June 30, but within the School District's "availability period", are considered immaterial to these financial statements and are deferred along with the second 1/2 of the current year's tax levy.

Delinquent property taxes, from prior year tax levies, are included in "net position" in the government-wide statement of activities but are deferred in the fund financial statements. See reconciliations on page 12 and 14.

11. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft, damage, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the two years ending June 30, 2014 the School District managed its risks as follows:

Health:

The School District does not purchase health insurance for its employees.

Liability:

The School District joined the Associated School Boards of South Dakota Property Liability Fund (ASBSD-PLF), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts.

The objective of the ASBSD-PLF is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower cost for that coverage. The School District's responsibility is to promptly report to and cooperate with the ASBSD-PLF to resolve any incident which could result in a claim being made by or against the School District. The School District pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued on the ultimate cost of the experience to date of the ASBSD-PLF member, based on their exposure or type of coverage.

The School District pays an annual premium to the pool to provide coverage for: boiler and machinery, property, general liability, automobile, crime, employee benefits and school board errors and omissions.

The agreement with the ASBSD-PLF provides that the above coverage's will be provided to a \$532,500 limit for property, \$2,000,000 aggregate limit for general liability, \$2,000,000 limit for automobile, \$2,000,000 limit for employee benefits liability and a \$2,000,000 limit Board errors and for crime. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$100,000 to the upper limit for general liability, automobile, employee benefit liability, school board errors and \$10,000 for crime. The School carries a \$5,000 deductible for school board errors and \$1,000 deductible for crime coverage and employee benefits liability.

The property and boiler and machinery coverage is \$250,000,000 with a boiler and machinery limit of \$50,000,000 and deductibles of \$500 for property and \$1,000 for boiler.

The Associated School Boards of South Dakota also provides an excess liability coverage, which will provide an additional \$2,000,000 coverage over and above the upper limits for property, general, automobile, and crime. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$10,000,000.

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

Workmen's Compensation:

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool (Pool), which provides workers compensation insurance coverage for participating members of the pool.

The objective of the Pool is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain

lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Pool to resolve any worker's compensation claims. The School District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospective rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Pool members. The School District may also be responsible for additional assessments in the event the Pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the Pool of all participants for the year in which the shortfall occurs. The Pool provides loss coverage to all participants, through Pool retained risk retention and through reinsurance coverage purchased by the Pool in excess of the retained risk. The Pool pays the first \$500,000 of any claim per individual. The Pool has reinsurance which covers up to \$1,000,000 per individual per incident.

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

Unemployment Benefits:

The School District has elected to be self-insured and retain all risks for liability resulting from claims for unemployment benefits. During FY13 and FY14 no claims for unemployment benefits were paid and none are anticipated in FY15.

12. OTHER DISCLOSURES AND SUBSEQUENT EVENT

The School District is not involved in any significant litigation.

The School District does not offer any Other Post Employment Benefits.

The School District does not have any material related party transactions.

On July 8, 2014 the Board approved an opt-out resolution for \$90,000 for the next three years.

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE ONE
 CHANGES IN CAPITAL ASSETS
 FOR THE YEAR ENDING JUNE 30, 2014

	Beginning 6-30-12	Book Adjustments	FY13 Additions Deletions	FY14 Additions Deletions	Ending 6-30-14	Accumulated Depreciation 6-30-12	FY13 Deletions	FY13 Additions	FY14 Additions Deletions	Accumulated Depreciation 6-30-14	Remaining Cost 6-30-14
General capital assets:											
Land	5,400				5,400	0					5,400
Buildings	190,708		(44,360)	426,309	572,657	(46,452)	23,890	(2,927)	(9,386)	(34,875)	537,782
Equipment	63,003		(15,551)		47,452	(38,229)	15,551	(5,792)	(5,793)	(34,263)	13,189
Construction-in-progress	0				0	0				0	0
Totals	<u>259,111</u>	<u>0</u>	<u>(59,911)</u>	<u>426,309</u>	<u>625,509</u>	<u>(84,681)</u>	<u>39,441</u>	<u>(8,719)</u>	<u>(15,179)</u>	<u>(69,138)</u>	<u>556,371</u>

Governmental depreciation
is allocated as follows:

5,823	9,053	Instruction
2,896	6,126	Support services
<u>8,719</u>	<u>15,179</u>	

Enterprise fund:											
Food service fund:											
Equipment	0				0	0				0	0
Totals	<u>0</u>										

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING JUNE 30, 2014

GENERAL FUND	Budgeted Amounts				Actual	Variance Positive (Negative)
	Original	Contingency Transfers	Supplementals	Final		
Revenues:						
Local Sources:						
Taxes:						
Ad valorem taxes	208,530			208,530	212,387	3,857
Prior year ad valorem taxes	4,000			4,000	5,146	1,146
Gross receipts	8,000			8,000	5,703	(2,297)
Penalties and interest	1,600			1,600	1,830	230
Interest earned	600			600	505	(95)
Other revenue from local sources:						
Other	175			175	1,526	1,351
Intermediate sources:						
County apportionment	1,800			1,800	1,686	(114)
PILOT	700			700		(700)
State sources:						
Unrestricted grants-in-aid	1,990			1,990	991	(999)
Federal sources:						
Unrestricted grants-in-aid	44,125		15,805	59,930	114,495	54,565
Restricted grants-in-aid	22,301			22,301	16,523	(5,778)
Total revenues	293,821	0	15,805	309,626	360,792	51,166
Expenditures:						
Instruction:						
Regular programs:						
Elementary school	87,189		2,583	89,772	94,204	(4,432)
Summer school				0	9	(9)
High school	67,239		9,994	77,233	80,854	(3,621)
Special programs:						
Educ. deprived (Title I)	800			800	2,946	(2,146)
Support services:						
Pupils:						
Guidance	6,750			6,750	6,450	300
Health services	250			250	80	170
Instruction:						
Staff training	1,000			1,000	1,000	0
Technology in school				0	10,327	(10,327)
General administration:						
Board of Education	22,678			22,678	21,441	1,237
Executive administration	29,371			29,371	28,013	1,358
Business:						
Fiscal services	31,553			31,553	28,438	3,115
Operations and maintenance	20,277		3,228	23,505	24,194	(689)
Pupil transportation	900			900	897	3
Contingencies	2,150			2,150		2,150
Amount transferred				0		0
Total expenditures	270,157	0	15,805	285,962	298,853	(12,891)
Other financing sources and (uses):						
Sale of surplus property				0		0
Transfer in	300,000			300,000		(300,000)
Transfer out	(323,664)			(323,664)	(127,072)	196,592
Net change in fund balance	0	0	0	0	(65,133)	(65,133)
Fund balance:						
July 1, 2013	410,076			410,076	410,076	0
June 30, 2014	410,076	0	0	410,076	344,943	(65,133)

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING JUNE 30, 2013

GENERAL FUND	Budgeted Amounts			Actual	Variance Positive (Negative)	
	Original	Contingency Transfers	Supplementals			Final
Revenues:						
Local Sources:						
Taxes:						
Ad valorem taxes	205,584			205,584	214,400	8,816
Prior year ad valorem taxes	3,400			3,400	4,514	1,114
Gross receipts	5,100			5,100	8,051	2,951
Penalties and interest	1,150			1,150	1,751	601
Interest earned	1,550			1,550	1,167	(383)
Other revenue from local sources:						
Other	171			171	2,487	2,316
Intermediate sources:						
County apportionment	2,800			2,800	2,204	(596)
PILOT	700			700		(700)
State sources:						
Unrestricted grants-in-aid	1,800			1,800	1,935	135
Other	3,300			3,300		(3,300)
Federal sources:						
Unrestricted grants-in-aid	56,400			56,400	124,495	68,095
Restricted grants-in-aid	22,351			22,351	31,151	8,800
Total revenues	304,306	0	0	304,306	392,155	87,849
Expenditures:						
Instruction:						
Regular programs:						
Elementary school	113,662			113,662	95,661	18,001
Summer school	1,735			1,735	1,615	120
High school	60,680			60,680	53,188	7,492
Special programs:						
Educ. deprived (Title I)	1,799			1,799	5,989	(4,190)
Support services:						
Pupils:						
Guidance	4,500			4,500	4,433	67
Health services	250			250		250
Instruction:						
Staff training	2,500			2,500	1,986	514
General administration:						
Board of Education	25,390			25,390	37,737	(12,347)
Executive administration	35,750			35,750	34,216	1,534
Business:						
Fiscal services	34,385			34,385	33,259	1,126
Operations and maintenance	17,155			17,155	18,309	(1,154)
Pupil transportation	6,500			6,500	1,147	5,353
Total expenditures	304,306	0	0	304,306	287,540	16,766
Other financing sources and (uses):						
None				0		0
Net change in fund balance	0	0	0	0	104,615	104,615
Fund balance:						
July 1, 2012	305,461			305,461	305,461	0
June 30, 2013	305,461	0	0	305,461	410,076	104,615

ELK MOUNTAIN SCHOOL DISTRICT No. 16-2

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING JUNE 30, 2014

CAPITAL OUTLAY FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplementals	Final		
Revenues:					
Local Sources:					
Taxes:					
Ad valorem taxes	26,628		26,628	38,274	11,646
Prior year's ad valorem ta:	100		100	961	861
Penalties and interest	150		150	297	147
Interest earned	100		100	10	(90)
Federal sources:					
Restricted grants-in-aid	0	2,601	2,601		(2,601)
Total revenues	26,978	2,601	29,579	39,542	9,963
Expenditures:					
Instruction:					
Regular programs:					
Elementary school	7,200		7,200		7,200
High school	2,500	813	3,313		3,313
Support services:					
Administration:					
Board of Education	10,978		10,978		10,978
Business:					
Facilities acqui and const	431,958	1,788	433,746	428,579	5,167
Total expenditures	452,636	2,601	455,237	428,579	26,658
Other financing sources and (uses):					
Transfer in	425,658		425,658	127,072	298,586
Net change in fund balance	0	0	0	(261,965)	335,207
Fund balance (deficit):					
July 1, 2013	118,525		118,525	118,525	0
June 30, 2014	118,525	0	118,525	(143,440)	335,207

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING JUNE 30, 2013

CAPITAL OUTLAY FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplementals	Final		
Revenues:					
Local Sources:					
Taxes:					
Ad valorem taxes	49,058		49,058	41,856	(7,202)
Prior year's ad valorem ta:	100		100	499	399
Penalties and interest	150		150	290	140
Interest earned	100		100	21	(79)
Total revenues	49,408	0	49,408	42,666	(6,742)
Expenditures:					
Instruction:					
Regular programs:					
Elementary school	2,000		2,000		2,000
High school	7,600		7,600		7,600
Support services:					
Administration:					
Board of Education	9,273		9,273	20,251	(10,978)
Business:					
Facilities acqui and const	22,535		22,535		22,535
Operation and maintenance	8,000		8,000		8,000
Total expenditures	49,408	0	49,408	20,251	29,157
Other financing sources and (uses):					
Sale of surplus property			0	2,600	(2,600)
Net change in fund balance	0	0	0	25,015	19,815
Fund balance:					
July 1, 2012	93,510		93,510	93,510	0
June 30, 2013	93,510	0	93,510	118,525	19,815

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING JUNE 30, 2014

SPECIAL EDUCATION FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplementals	Final		
Revenues:					
Local Sources:					
Taxes:					
Ad valorem taxes	7,500		7,500	8,963	1,463
Prior year ad valorem taxes:	25		25	363	338
Penalties and interest	25		25	134	109
Interest earned	495		495	222	(273)
Federal sources:					
Restricted grants-in-aid	1,893		1,893		(1,893)
Total revenues	9,938	0	9,938	9,682	(256)
Expenditures:					
Instruction:					
Special programs:					
Special education	808		808	1,990	(1,182)
Support services:					
Pupils:					
Special education	9,130		9,130	3,780	5,350
Total expenditures	9,938	0	9,938	5,770	4,168
Other financing sources and (uses):					
None			0		0
Net change in fund balance	0	0	0	3,912	3,912
Fund balance:					
July 1, 2013	74,220		74,220	74,220	0
June 30, 2014	74,220	0	74,220	78,132	3,912

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING JUNE 30, 2013

SPECIAL EDUCATION FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplementals	Final		
Revenues:					
Local Sources:					
Taxes:					
Ad valorem taxes	10,000		10,000	10,404	404
Prior year ad valorem taxes:	25		25	241	216
Penalties and interest	25		25	111	86
Interest earned	500		500	221	(279)
Federal sources:					
Restricted grants-in-aid	1,893		1,893		(1,893)
Total revenues	12,443	0	12,443	10,977	(1,466)
Expenditures:					
Instruction:					
Special programs:					
Special education			0	775	(775)
Support services:					
Pupils:					
Special education	11,643		11,643	2,836	8,807
Other:					
Transportation	800		800		800
Total expenditures	12,443	0	12,443	3,611	8,832
Other financing sources and (uses):					
Transfer in			0		0
Net change in fund balance	0	0	0	7,366	7,366
Fund balance:					
July 1, 2012	66,854		66,854	66,854	0
June 30, 2013	66,854	0	66,854	74,220	7,366

NOTES TO BUDGETARY COMPARISON SCHEDULES
JUNE 30, 2014

1. Budgets and Budgetary Accounting:

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

- a. Prior to the first regular board meeting in May of each year the school board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
- b. The proposed budget is considered by the school board at the first regular meeting held in May of each year.
- c. The proposed budget is published for public review no later than July 15 of each year.
- d. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
- e. Before October 1 of each year, the school board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
- f. After adoption by the school board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 1h below.
- g. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
- h. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets, when money is available, to increase legal spending authority. There was one supplemental budget in FY14 and none in FY13. See page 31 to 34.
- i. Unexpended appropriations lapse at year end unless encumbered by resolution of the school board. No encumbrances were outstanding at June 30, 2014.
- j. Formal budgetary integration is employed as a management control device during the year for the general fund and special revenue funds. Formal budgetary integration is not employed for debt service funds (if any) because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
- k. Budgets for the general fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

2. GAAP and Budgetary Accounting Basis Difference:

The financial statements prepared in conformity with U.S.GAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new school bus would be reported as a capital expenditure on the governmental funds statement of revenues, expenditures and changes in fund balances. However, in the budgetary RSI schedule, the purchase of a school bus would be reported as an expenditure of the support service/business/pupil transportation function of government, along with all other current pupil transportation related expenditures.

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

Governing Board
Elk Mountain School District No. 16-2
Elk Mountain, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of governmental activities, business-type activities and each major fund of the Elk Mountain School District (School District), Custer County, South Dakota, as of June 30, 2014 and for each of the fiscal years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued my report thereon dated January 6, 2015 which was unmodified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Elk Mountain School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 my audit and, accordingly, I do not express such an opinion.

The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I did note minor matters involving compliance that I reported to the governing body and management of the Elk Mountain School District in a separate Letter of Comments dated January 6, 2015.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exist when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Elk Mountain School District's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency*, is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be a material weakness. However, material weaknesses may exist that have not been identified.

I did identify a deficiency in internal control, described in the accompanying schedule of current audit findings and responses that I consider to be a significant deficiency. I consider the deficiency described in the accompanying schedule of current audit findings and responses as item 2014-01 to be a significant deficiency.

I did note other minor matters involving internal control that I reported to the governing body and management of the Elk Mountain School District in a separate Letter of Comments dated January 6, 2015.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on the effectiveness of Elk Mountain School District's compliance or internal control over financial reporting. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Elk Mountain School District's compliance and internal control over financial reporting. Accordingly, this communication is not suitable for any other purpose.

However, as required by South Dakota Codified Law 4-11-11, this report is a mater of public record and its distribution is not limited.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota



January 6, 2015

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Federal Compliance Audit Findings: NONE

Prior Other Audit Findings:

2011-01: Lack of Segregation of Duties: Mitigated

2011-02: Preparation of financial statement: Repeated below as 2014-01

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Type of auditor's report issued: Unqualified on:
Governmental Activities
Business-Type Activities
Major Funds

Noncompliance: None Reported

Internal control over financial reporting:

* Significant deficiency(ies) identified
that are not considered to be material
weaknesses?

Finding 2014-01

* Material weakness(es) identified?

None Reported

Finding 2014-01: Preparation of Financial Statements
(internal control)

Criteria:

A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements.

Condition:

The School District has elected not to have an internal control system designed to provide for the preparation of the financial statement being audited. As the auditor, I was requested to draft these financial statements and accompanying notes to the financial statements.

Possible Effect:

This control deficiency could result in a misstatement of the financial statements that would not be prevented or detected.

Recommendations:

This situation is not unusual for an entity of the School District's size. It is the responsibility of management, and those charged with governance, to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response:

Due to cost constraints, the School District will continue to have the auditor draft the financial statements and accompanying notes to the financial statements.