



Financial Statements
June 30, 2014 and 2013

Frederick Area School District No. 6-2

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Independent Auditor's Report

The School Board
Frederick Area School District No. 6-2
Frederick, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Frederick Area School District No. 6-2 (the School District) as of June 30, 2014 and for the years ended June 30, 2014 and 2013, 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

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District as of June 30, 2014, and the respective changes in financial position and, where, applicable, cash flows thereof for the years then ended June 30, 2014 and 2013 in accordance with accounting principles generally accepted in the United States of America.

Correction of Error

As discussed in Note 14 to the financial statements, certain errors in amounts previously reported for accounts receivable, utility gross receipts tax revenue and capital assets as of June 30, 2012 were discovered by management of the School District during the current year. Accordingly, an adjustment has been made to the beginning fund balance of the General Fund and beginning net position of the governmental activities as of June 30, 2012 to correct these errors. Our opinions are not modified with respect to these matters.

Adoption of New Accounting Standard

As described in Note 1 to the financial statements, Frederick Area School District No. 6-2 early adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The School District has updated the current period reporting for this item as no retroactive restatement was necessary. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of funding progress and budgetary comparison information on pages 40 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2014 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Aberdeen, South Dakota
December 8, 2014

Frederick Area School District No. 6-2
Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,104,736	\$ 1,649	\$ 2,106,385
Taxes receivable	654,011	-	654,011
Other receivables	79,734	-	79,734
Internal balances	2,000	(2,000)	-
Inventories	-	3,069	3,069
Other assets	1,500	-	1,500
Capital assets not being depreciated:			
Land	2,000	-	2,000
Capital assets, net of accumulated depreciation:			
Improvements other than buildings	2,723	-	2,723
Buildings	1,757,084	-	1,757,084
Machinery and equipment	298,937	1,453	300,390
Total Assets	\$ 4,902,725	\$ 4,171	\$ 4,906,896
Liabilities, Deferred Inflows of Resources and Net Position			
Liabilities			
Accounts payable	\$ 34,029	\$ 28	\$ 34,057
Other current liabilities	137,986	-	137,986
Noncurrent liabilities:			
Due within one year	110,868	-	110,868
Due in more than one year	46,210	-	46,210
Total liabilities	329,093	28	329,121
Deferred Inflows of Resources			
Taxes levied for future period	707,008	-	707,008
Net Position			
Invested in capital assets, net of related debt	1,949,876	1,453	1,951,329
Restricted for:			
Capital Outlay	455,964	-	455,964
Special Education	349,838	-	349,838
Pension	97,379	-	97,379
Unrestricted	1,013,567	2,690	1,016,257
Total net position	3,866,624	4,143	3,870,767
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 4,902,725	\$ 4,171	\$ 4,906,896

Frederick Area School District No. 6-2
Statements of Activities
Years Ended June 30, 2014 and 2013

Functions/Programs	2014						
	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government							
Governmental activities:							
Instruction	\$ 1,021,994	\$ 9,803	\$ 63,597	\$ -	\$ (948,594)	\$ -	\$ (948,594)
Support services	717,727	-	8,318	-	(709,409)	-	(709,409)
Nonprogrammed charges	25,045	-	-	-	(25,045)	-	(25,045)
Cocurricular activities	120,114	25,021	-	-	(95,093)	-	(95,093)
Total governmental activities	<u>1,884,880</u>	<u>34,824</u>	<u>71,915</u>	<u>-</u>	<u>(1,778,141)</u>	<u>-</u>	<u>(1,778,141)</u>
Business-type activities:							
Other	2,312	-	-	-	-	(2,312)	(2,312)
Food service	95,059	46,071	42,753	-	-	(6,235)	(6,235)
Total business-type activities	<u>97,371</u>	<u>46,071</u>	<u>42,753</u>	<u>-</u>	<u>-</u>	<u>(8,547)</u>	<u>(8,547)</u>
Total primary government	<u>\$ 1,982,251</u>	<u>\$ 80,895</u>	<u>\$ 114,668</u>	<u>\$ -</u>	<u>(1,778,141)</u>	<u>(8,547)</u>	<u>(1,786,688)</u>
General Revenues							
Property taxes					1,344,189	-	1,344,189
Gross receipts taxes					49,673	-	49,673
Revenue from State sources:							
State aid					628,071	-	628,071
Other state revenue					258	-	258
Revenue from Federal sources					31,556	-	31,556
Unrestricted investment earnings					680	-	680
Gain on disposal of assets					1,200	-	1,200
Other general revenues					22,135	-	22,135
Transfers					(6,000)	6,000	-
Total general revenues and transfers					<u>2,071,762</u>	<u>6,000</u>	<u>2,077,762</u>
Change in Net Position					293,621	(2,547)	291,074
Net Position - Beginning					<u>3,573,003</u>	<u>6,690</u>	<u>3,579,693</u>
Net Position - Ending					<u>\$ 3,866,624</u>	<u>\$ 4,143</u>	<u>\$ 3,870,767</u>

See Notes to Financial Statements

Frederick Area School District No. 6-2
Statements of Activities
Years Ended June 30, 2014 and 2013

Functions/Programs	2013						
	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government							
Governmental activities:							
Instruction	\$ 1,074,001	\$ 9,080	\$ 88,017	\$ -	\$ (976,904)	\$ -	\$ (976,904)
Support services	722,894	-	21,633	-	(701,261)	-	(701,261)
Nonprogrammed charges	3,663	-	-	-	(3,663)	-	(3,663)
Interest on long-term debt	1,091	-	-	-	(1,091)	-	(1,091)
Cocurricular activities	113,692	17,009	-	-	(96,683)	-	(96,683)
Total governmental activities	<u>1,915,341</u>	<u>26,089</u>	<u>109,650</u>	<u>-</u>	<u>(1,779,602)</u>	<u>-</u>	<u>(1,779,602)</u>
Business-type activities:							
Food service	86,198	41,285	37,994	-	-	(6,919)	(6,919)
Other	2,977	2,276	-	-	-	(701)	(701)
Total business-type activities	<u>89,175</u>	<u>43,561</u>	<u>37,994</u>	<u>-</u>	<u>-</u>	<u>(7,620)</u>	<u>(7,620)</u>
Total primary government	<u>\$ 2,004,516</u>	<u>\$ 69,650</u>	<u>\$ 147,644</u>	<u>\$ -</u>	<u>(1,779,602)</u>	<u>(7,620)</u>	<u>(1,787,222)</u>
General Revenues							
Property taxes					1,195,873	-	1,195,873
Gross receipts taxes					37,384	-	37,384
Revenue from State sources:							
State aid					635,940	-	635,940
Other State revenue					170	-	170
Revenue from Federal sources					7,528	-	7,528
Unrestricted investment earnings					643	-	643
Other general revenues					17,938	-	17,938
Transfers					(10,000)	10,000	-
Total general revenues and transfers					<u>1,885,476</u>	<u>10,000</u>	<u>1,895,476</u>
Change in Net Position					<u>105,874</u>	<u>2,380</u>	<u>108,254</u>
Net Position - Beginning					3,405,779	4,310	3,410,089
Correction of Error (See Note 14)					61,350	-	61,350
Net Position - Beginning, Restated					<u>3,467,129</u>	<u>4,310</u>	<u>3,471,439</u>
Net Position - Ending					<u>\$ 3,573,003</u>	<u>\$ 6,690</u>	<u>\$ 3,579,693</u>

See Notes to Financial Statements

Frederick Area School District No. 6-2
Balance Sheet – Governmental Funds
June 30, 2014

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 1,113,553	\$ 502,199	\$ 377,197	\$ 111,787	\$ 2,104,736
Taxes receivable - current	285,048	226,274	114,445	22,643	648,410
Taxes receivable - delinquent	3,203	1,616	620	162	5,601
Due from other funds	2,000	-	-	-	2,000
Due from other governments	79,734	-	-	-	79,734
Advance Payments	1,500	-	-	-	1,500
Total Assets	\$ 1,485,038	\$ 730,089	\$ 492,262	\$ 134,592	\$ 2,841,981
Liabilities, Deferred Inflows of Resources and Fund Balances					
Current Liabilities					
Accounts payable	\$ 4,360	\$ 27,081	\$ 2,588	\$ -	\$ 34,029
Contracts payable	100,169	-	11,087	-	111,256
Payroll deductions and withholdings and employer matching payable	10,440	-	3,799	12,491	26,730
Total current liabilities	114,969	27,081	17,474	12,491	172,015
Deferred Inflows of Resources					
Taxes levied for future period	310,292	247,044	124,950	24,722	707,008
Unavailable revenue - delinquent property taxes	3,203	1,616	620	162	5,601
Total deferred inflows of resources	313,495	248,660	125,570	24,884	712,609
Fund Balances					
Restricted					
Capital Outlay	-	454,348	-	-	454,348
Special Education	-	-	349,218	-	349,218
Pension	-	-	-	97,217	97,217
Unassigned	1,056,574	-	-	-	1,056,574
Total fund balances	1,056,574	454,348	349,218	97,217	1,957,357
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 1,485,038	\$ 730,089	\$ 492,262	\$ 134,592	\$ 2,841,981

Frederick Area School District No. 6-2
Reconciliation of the Governmental Funds Balance Sheet to the Statements of Net Position
Year Ended June 30, 2014

Total Fund Balances - Governmental Funds	\$ 1,957,357
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not current financial resources and; therefore, are not reported in the funds.	2,060,744
Long-term liabilities, including bonds payable, accrued leave payable, and OPEB obligations are not due and payable in the current period and; therefore, are not reported in the funds.	(157,078)
Property taxes become due and payable on January 1, each year, but are not collected/available soon enough to pay current period expenditures; therefore, they are reported as deferred revenue in the fund financial statements. However, because the delinquent taxes are payable by the taxpayer at June 30, the delinquent taxes are reported as revenue on the government-wide financial statements.	<u>5,601</u>
Net Position - Governmental Funds	<u><u>\$ 3,866,624</u></u>

Frederick Area School District No. 6-2
 Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
 Years Ended June 30, 2014 and 2013

	2014				
	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
Revenues					
Revenue from local sources					
Taxes:					
Ad valorem taxes	\$ 589,845	\$ 466,206	\$ 227,222	\$ 46,636	\$ 1,329,909
Prior year's ad valorem taxes	8,891	4,834	1,758	509	15,992
Gross receipts taxes	49,673	-	-	-	49,673
Penalties and interest on taxes	2,870	1,832	742	158	5,602
Earnings on investments and deposits	680	-	-	-	680
Cocurricular activities:					
Admissions	24,061	-	-	-	24,061
Other pupil activity income	960	-	-	-	960
Other revenue from local sources:					
Contributions and donations	318	8,000	-	-	8,318
Charges for services	9,146	-	657	-	9,803
Other	7,167	-	-	-	7,167
Revenue from intermediate sources					
County sources:					
County apportionment	14,968	-	-	-	14,968
Revenue from State sources					
Grants-in-aid:					
Unrestricted grants-in-aid	628,071	-	-	-	628,071
Other State revenue	258	-	-	-	258
Revenue from Federal sources					
Grants-in-aid:					
Restricted grants-in-aid received from Federal government through the State	57,317	-	6,280	-	63,597
Other Federal revenue	31,556	-	-	-	31,556
Total revenues	<u>1,425,781</u>	<u>480,872</u>	<u>236,659</u>	<u>47,303</u>	<u>2,190,615</u>
Expenditures					
Instruction					
Regular programs:					
Elementary	361,015	38,861	-	-	399,876
High school	324,297	25,150	-	-	349,447
Other	28,034	-	-	-	28,034
Special programs:					
Programs for special education	-	-	138,119	-	138,119
Coordinated Early Intervening Services	-	-	6,280	-	6,280
Educationally deprived	38,015	-	-	-	38,015
Support services					
Pupils:					
Guidance	6,470	-	-	-	6,470
Drug and alcohol	139	-	-	-	139
Psychological	-	-	3,505	-	3,505
Speech pathology	-	-	7,303	-	7,303
Student therapy services	-	-	11,500	-	11,500
Support services - instructional staff:					
Improvement of instruction	7,099	-	-	-	7,099
Educational media	48,921	-	-	-	48,921

Frederick Area School District No. 6-2
 Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
 Years Ended June 30, 2014 and 2013

	2014				Total Governmental Funds
	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	
Support services - general administration:					
Board of Education	14,222	-	-	-	14,222
Executive administration	79,347	2,472	-	-	81,819
Support services - school administration:					
Office of the Principal	81,629	-	-	-	81,629
Other school administration	305	-	-	-	305
Support services - business:					
Fiscal services	68,816	3,550	-	-	72,366
Facilities acquisition and construction	-	330	-	-	330
Operation and maintenance of plant	132,193	79,647	-	-	211,840
Pupil transportation	72,669	108,525	-	-	181,194
Other	-	1,124	-	-	1,124
Support services - special education:					
Administration costs	-	-	1,853	-	1,853
Nonprogrammed charges					
Early retirement payments	-	-	-	25,045	25,045
Cocurricular activities					
Male activities	41,304	3,687	-	-	44,991
Female activities	25,409	5,126	-	-	30,535
Transportation	8,049	-	-	-	8,049
Combined activities	13,457	-	-	-	13,457
Capital outlay	-	197,523	-	-	197,523
Total expenditures	1,351,390	465,995	168,560	25,045	2,010,990
Excess of Revenue over (under) Expenditures	74,391	14,877	68,099	22,258	179,625
Other Financing Sources (Uses)					
Transfers out	(6,000)	-	-	-	(6,000)
Sale of surplus property	1,200	-	-	-	1,200
Total other financing sources (uses)	(4,800)	-	-	-	(4,800)
Net Change in Fund Balance	69,591	14,877	68,099	22,258	174,825
Fund Balance - Beginning	986,983	439,471	281,119	74,959	1,782,532
Fund Balance - Ending	\$ 1,056,574	\$ 454,348	\$ 349,218	\$ 97,217	\$ 1,957,357

Frederick Area School District No. 6-2
 Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
 Years Ended June 30, 2014 and 2013

	2013				
	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
Revenues					
Revenue from local sources					
Taxes:					
Ad valorem taxes	\$ 551,458	\$ 425,336	\$ 164,484	\$ 42,232	\$ 1,183,510
Prior year's ad valorem taxes	2,374	1,415	425	141	4,355
Gross receipts taxes	65,590	-	-	-	65,590
Penalties and interest on taxes	1,523	1,147	350	115	3,135
Earnings on investments and deposits	643	-	-	-	643
Cocurricular activities:					
Admissions	16,486	-	-	-	16,486
Other pupil activity income	523	-	-	-	523
Other revenue from local sources:					
Contributions and donations	-	21,633	-	-	21,633
Medicaid	8,472	-	608	-	9,080
Other	2,678	-	-	-	2,678
Revenue from intermediate sources					
County sources:					
County apportionment	15,260	-	-	-	15,260
Revenue from State sources					
Grants-in-aid:					
State Aid					
Unrestricted grants-in-aid	635,940	-	-	-	635,940
Restricted grants-in-aid	28,794	-	1,000	-	29,794
Other State revenue	170	-	-	-	170
Revenue from Federal sources					
Grants-in-aid:					
Restricted grants-in-aid received from Federal government through the State	58,223	-	-	-	58,223
Other Federal revenue	7,528	-	-	-	7,528
Total revenues	<u>1,395,662</u>	<u>449,531</u>	<u>166,867</u>	<u>42,488</u>	<u>2,054,548</u>
Expenditures					
Instruction					
Regular programs:					
Elementary	367,298	29,121	-	-	396,419
High school	346,111	66,217	-	-	412,328
Other	3,370	-	-	-	3,370
Special programs:					
Programs for special education	-	-	134,243	-	134,243
Educationally deprived	48,369	-	-	-	48,369
Other	17,038	-	-	-	17,038
Support services					
Pupils:					
Guidance	5,942	-	-	-	5,942
Psychological	-	-	3,210	-	3,210
Speech pathology	-	-	6,955	-	6,955
Student therapy services	-	-	16,172	-	16,172
Support services - instructional staff:					
Improvement of instruction	13,975	-	-	-	13,975
Educational media	19,453	-	-	-	19,453
Support services - general administration:					
Board of Education	23,183	-	-	-	23,183
Executive administration	86,760	-	-	-	86,760

Frederick Area School District No. 6-2
Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Years Ended June 30, 2014 and 2013

	2013				Total Governmental Funds
	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	
Support services - school administration:					
Office of the Principal	77,742	2,256	-	-	79,998
Other school administration	310	2,843	-	-	3,153
Support services - business:					
Fiscal services	64,138	1,487	-	-	65,625
Operation and maintenance of plant	129,009	89,062	-	-	218,071
Pupil transportation	57,730	124,513	-	-	182,243
Food service	-	2,736	-	-	2,736
Support services - special education:					
Administration costs	-	-	3,197	-	3,197
Nonprogrammed charges:					
Self insurance	3,663	-	-	-	3,663
Early retirement payments	-	-	-	50,000	50,000
Debt service	-	44,781	-	-	44,781
Cocurricular activities					
Male activities	35,295	4,768	-	-	40,063
Female activities	18,859	296	-	-	19,155
Transportation	10,451	-	-	-	10,451
Combined activities	21,873	-	-	-	21,873
Capital outlay	-	40,823	-	-	40,823
Total expenditures	<u>1,350,569</u>	<u>408,903</u>	<u>163,777</u>	<u>50,000</u>	<u>1,973,249</u>
Excess of Revenue over (under) Expenditures	<u>45,093</u>	<u>40,628</u>	<u>3,090</u>	<u>(7,512)</u>	<u>81,299</u>
Other Financing Sources (Uses)					
Transfers in	22,754	-	-	-	22,754
Transfers out	(10,000)	-	-	-	(10,000)
Total other financing sources (uses)	<u>12,754</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,754</u>
Net Change in Fund Balance	<u>57,847</u>	<u>40,628</u>	<u>3,090</u>	<u>(7,512)</u>	<u>94,053</u>
Fund Balance - Beginning	915,645	398,843	278,029	82,471	1,674,988
Correction of Error (See Note 14)	13,491	-	-	-	13,491
Fund Balance - Beginning, Restated	<u>929,136</u>	<u>398,843</u>	<u>278,029</u>	<u>82,471</u>	<u>1,688,479</u>
Fund Balance - Ending	<u>\$ 986,983</u>	<u>\$ 439,471</u>	<u>\$ 281,119</u>	<u>\$ 74,959</u>	<u>\$ 1,782,532</u>

Frederick Area School District No. 6-2

Reconciliation of the Statements of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statements of Activities
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Net Change in Fund Balances - Total Governmental Funds	\$ 174,825	\$ 94,053
Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because:		
Governmental funds report capital outlays as expenditures; however, in the statements of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$40,823) was exceeded by depreciation (\$98,233) in 2013 and capital outlay (\$197,523) exceeded depreciation (\$101,912) in 2014.	95,611	(57,410)
Repayment of bond principal is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	52,859	93,168
Transfer of funds from internal service fund to general fund which will be a transfer in on the fund statements but was already reflected as an assets in the government-wide statements	-	(22,755)
The accrual of OPEB costs are not reflected in governmental funds, but the statements of activities reflects the change in this liability from one year to the next.	(22,360)	(27,850)
Repayment of early retirement principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. New early retirement approved was \$25,000, payments of early retirement were \$75,000.	-	50,000
The fund financial statement governmental fund property tax accruals differ from the government wide statement property tax accruals in that the fund financial statements require the amounts to be "available".	<u>(7,314)</u>	<u>(23,332)</u>
Change in Net Position of Governmental Activities	<u>\$ 293,621</u>	<u>\$ 105,874</u>

Frederick Area School District No. 6-2
Statement of Net Position – Proprietary Funds
June 30, 2014

	Enterprise		
	Food Service Fund	Driver Ed Fund	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 1,374	\$ 275	\$ 1,649
Inventory of supplies	822	-	822
Inventory of stores purchased for resale	1,701	-	1,701
Inventory of donated food	546	-	546
Total current assets	<u>4,443</u>	<u>275</u>	<u>4,718</u>
Noncurrent Assets			
Capital assets:			
Machinery and equipment - local funds	28,406	-	28,406
Machinery and equipment - Federal assistance	10,158	-	10,158
Less accumulated depreciation	<u>(37,111)</u>	<u>-</u>	<u>(37,111)</u>
Total noncurrent assets	<u>1,453</u>	<u>-</u>	<u>1,453</u>
Total Assets	<u>\$ 5,896</u>	<u>\$ 275</u>	<u>\$ 6,171</u>
Liabilities and Net Position			
Current Liabilities			
Accounts payable	\$ 28	\$ -	\$ 28
Due to general fund	<u>2,000</u>	<u>-</u>	<u>2,000</u>
Total current liabilities	<u>2,028</u>	<u>-</u>	<u>2,028</u>
Net Position			
Invested in capital assets	1,453	-	1,453
Unrestricted net position	<u>2,415</u>	<u>275</u>	<u>2,690</u>
Total net position	<u>3,868</u>	<u>275</u>	<u>4,143</u>
Total Liabilities and Net Position	<u>\$ 5,896</u>	<u>\$ 275</u>	<u>\$ 6,171</u>

Frederick Area School District No. 6-2
 Statements of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
 Years Ended June 30, 2014 and 2013

	2014			2013			
	Enterprise			Enterprise			Internal Service Funds
	Food Service Fund	Driver Ed Fund	Total	Food Service Fund	Driver Ed Fund	Total	
Operating Revenue							
Sales							
To pupils	\$ 41,188	\$ -	\$ 41,188	\$ 37,211	\$ -	\$ 37,211	\$ -
To adults	4,883	-	4,883	4,018	-	4,018	-
To others	-	-	-	56	-	56	-
Fees	-	-	-	-	2,276	2,276	-
Total operating revenue	46,071	-	46,071	41,285	2,276	43,561	-
Operating Expenses							
Salaries	29,225	1,680	30,905	28,150	2,235	30,385	-
Employee benefits	4,212	129	4,341	4,119	216	4,335	-
Purchased services	1,633	-	1,633	2,347	-	2,347	-
Supplies	4,751	503	5,254	2,246	432	2,678	-
Cost of sales - purchased	49,729	-	49,729	43,385	-	43,385	-
Cost of sales - donated	4,957	-	4,957	5,680	-	5,680	-
Other	319	-	319	38	-	38	-
Repairs and maintenance	-	-	-	-	94	94	-
Depreciation	233	-	233	233	-	233	-
Total operating expenses	95,059	2,312	97,371	86,198	2,977	89,175	-
Operating Loss	(48,988)	(2,312)	(51,300)	(44,913)	(701)	(45,614)	-
Nonoperating Revenue							
State sources:							
Cash reimbursements	424	-	424	769	-	769	-
Federal sources:							
Cash reimbursements	37,126	-	37,126	31,614	-	31,614	-
Donated food	5,203	-	5,203	5,611	-	5,611	-
Total nonoperating revenue	42,753	-	42,753	37,994	-	37,994	-
Loss Before Contributions and Transfers	(6,235)	(2,312)	(8,547)	(6,919)	(701)	(7,620)	-
Transfers in	6,000	-	6,000	8,000	2,000	10,000	-
Transfers out	-	-	-	-	-	-	(22,754)
Total transfer in (out)	6,000	-	6,000	8,000	2,000	10,000	(22,754)
Change in Net Position	(235)	(2,312)	(2,547)	1,081	1,299	2,380	(22,754)
Net Position - Beginning	4,103	2,587	6,690	3,022	1,288	4,310	22,754
Net Position - Ending	\$ 3,868	\$ 275	\$ 4,143	\$ 4,103	\$ 2,587	\$ 6,690	\$ -

Frederick Area School District No. 6-2
 Statements of Cash Flows – Proprietary Funds
 Years Ended June 30, 2014 and 2013

	2014			2013			
	Enterprise			Enterprise			
	Food Service Fund	Driver Ed Fund	Total	Food Service Fund	Driver Ed Fund	Total	Internal Service Funds
Cash Flows used for Operating Activities							
Cash receipts from customers	\$ 46,071	\$ -	\$ 46,071	\$ 41,285	\$ 2,276	\$ 43,561	\$ -
Cash payments to employees for services	(33,437)	(1,809)	(35,246)	(32,269)	(2,451)	(34,720)	-
Cash payments to suppliers for goods or services	(56,560)	(597)	(57,157)	(48,579)	(432)	(49,011)	-
Net Cash used for Operating Activities	<u>(43,926)</u>	<u>(2,406)</u>	<u>(46,332)</u>	<u>(39,563)</u>	<u>(607)</u>	<u>(40,170)</u>	<u>-</u>
Cash Flows from (used for) Noncapital Financing Activities							
Transfers (to) from general fund	6,000	-	6,000	8,000	2,000	10,000	(22,754)
Cash reimbursements - State sources	424	-	424	769	-	769	-
Cash reimbursements - Federal sources	37,126	-	37,126	31,614	-	31,614	-
Net Cash from (used for) Noncapital Financing Activities	<u>43,550</u>	<u>-</u>	<u>43,550</u>	<u>40,383</u>	<u>2,000</u>	<u>42,383</u>	<u>(22,754)</u>
Net Change in Cash and Cash Equivalents	(376)	(2,406)	(2,782)	820	1,393	2,213	(22,754)
Cash and Cash Equivalents Beginning of Year	1,750	2,681	4,431	930	1,288	2,218	22,754
Cash and Cash Equivalents End of Year	<u>\$ 1,374</u>	<u>\$ 275</u>	<u>\$ 1,649</u>	<u>\$ 1,750</u>	<u>\$ 2,681</u>	<u>\$ 4,431</u>	<u>\$ -</u>
Reconciliation of Operating Loss to Net Cash used for Operating Activities							
Operating loss	\$ (48,988)	\$ (2,312)	\$ (51,300)	\$ (44,913)	\$ (701)	\$ (45,614)	\$ -
Adjustments to reconcile operating loss to net cash used for operating activities:							
Value of donated commodities used	4,957	-	4,957	5,680	-	5,680	-
Depreciation	233	-	233	233	-	233	-
Change in assets and liabilities:							
Inventories	34	-	34	(578)	-	(578)	-
Accounts and other payables	(162)	(94)	(256)	15	94	109	-
Net Cash used for Operating Activities	<u>\$ (43,926)</u>	<u>\$ (2,406)</u>	<u>\$ (46,332)</u>	<u>\$ (39,563)</u>	<u>\$ (607)</u>	<u>\$ (40,170)</u>	<u>\$ -</u>
Noncash Investing, Capital and Financing Activities							
Value of commodities received	\$ 5,203	\$ -	\$ 5,203	\$ 5,611	\$ -	\$ 5,611	\$ -

See Notes to Financial Statements

Frederick Area School District No. 6-2
Statement of Fiduciary Net Position – Fiduciary Funds
June 30, 2014

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 53,018	\$ 74,127
Loans receivable	1,332	-
Interest receivable	444	-
Total Assets	<u>\$ 54,794</u>	<u>\$ 74,127</u>
Liabilities and Net Position		
Liabilities		
Amounts held for others	<u>\$ -</u>	<u>\$ 74,127</u>
Total liabilities	<u>-</u>	<u>74,127</u>
Net Position		
Held in trust for loans	<u>54,794</u>	<u>-</u>
Total net position	<u>54,794</u>	<u>-</u>
Total Liabilities and Net Position	<u>\$ 54,794</u>	<u>\$ 74,127</u>

Frederick Area School District No. 6-2
 Statements of Changes in Fiduciary Net Position – Fiduciary Funds
 Years Ended June 30, 2014 and 2013

	2014	2013
	Private- Purpose Trust Funds	Private- Purpose Trust Funds
Investment Earnings Interest	\$ 198	\$ 208
Net Position - Beginning	54,596	54,388
Net Position - Ending	\$ 54,794	\$ 54,596

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Frederick Area School District No. 6-2 (the School District) conform to generally accepted accounting principles applicable to government entities in the United States of America.

Financial Reporting Entity

The reporting entity of the Frederick Area School District No. 6-2 consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the School District); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the School District'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 (primary government). The School District may also be financially accountable for another organization if that organization is fiscally dependent on the School District. The School District has no component units.

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

Basis of Presentation

The financial statements of the School District have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard setting body for governmental accounting and financial reporting.

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

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

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

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

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary services.

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

Governmental Funds

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

Special Revenue Fund Types - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Capital Outlay, Special Education, and Pension funds are the special revenue funds maintained by the School District.

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

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

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

Proprietary Funds

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that costs of providing goods and services be financed or recovered primarily through user charges. The Food Service Fund and Driver Education Fund are the enterprise funds of the School District.

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

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

Internal Service Fund Types – Funds are used to report activities that provide goods or services to other funds, departments or agencies of the School District and its component units, or to other governments, on a cost-reimbursement basis. Internal service funds are never considered to be major funds.

The Unemployment Fund is the only internal service fund maintained by the School District.

Fiduciary Funds

Fiduciary funds are never considered to be major funds.

Private Purpose Trust Fund - Two trust funds of the School District were created to hold funds in trust for the benefit of making loans to School District graduates to help cover the costs of higher education. All accumulated earnings on these invested resources may be used to support the disbursement of loans to graduates of the School District.

Agency Fund - The student activity fund is used to account for student funds generated within the various schools by the students or other School District organizations. The School District holds the student activity fund’s assets in a custodial capacity. Because agency funds are custodial in nature, they do not measure results of operations.

Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

Basis of Accounting

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

Fund Financial Statements - All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues generally are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the School District, the length of that cycle is 60 days. The revenues which are accrued at June 30, 2014 and 2013 are due from the Federal government.

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

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

Interfund Eliminations and Reclassifications

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

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as internal balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain “centralized expenses” are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

Fund Financial Statements

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

Inventory

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first out (FIFO). Donated commodities are valued at estimated market value based on the USDA price list at date of receipt. In the government-wide financial statements and the proprietary funds in the fund financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed. In the fund financial statements, inventories in the General Fund and special revenue funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are considered nonspendable fund balances as they do not constitute "available spendable resources". The School District did not have any material amounts of inventory in the General Fund or special revenue funds.

Capital Assets

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

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

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

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

The June 30, 2014 and 2013 balance of capital assets for governmental activities includes approximately 14% and 13% respectively, for which the costs were determined by estimates of the original costs. These estimated original costs were established by deflating the current replacement cost. The total June 30, 2014 and 2013 balance of capital assets for business-type activities are all valued at original cost.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land*	\$ 1,000	N/A	N/A
Food service equipment	1,000	Straight-Line	12 years
Buildings and improvements	5,000	Straight-Line	33-50 years
Machinery and equipment	5,000	Straight-Line	5-20 years

**Land is an inexhaustible capital asset and is not depreciated*

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

Long-Term Liabilities

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of capital outlay certificates and capital leases.

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

Program Revenues

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

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

Property Taxes

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

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

Proprietary Funds Revenue and Expense Classifications

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

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

Cash and Cash Equivalents

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

Equity Classifications

Government-Wide Statements - Equity is classified as net position and is displayed in three components:

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

Fund Financial Statements

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

Application of Net Position

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

Fund Balance Classification Policies and Procedures

In accordance with GASB No. 54, the School District classifies governmental fund balance 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 restraints.
- Restricted – Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year end.
- Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the School Board or Business Manager.
- Unassigned – Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

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

The purpose of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Capital Outlay Fund	Property taxes
Special Education Fund	Grants and property taxes
Pension Fund	Property taxes

Deferred Inflows of Resources

For the year ended June 30, 2013, the School District early implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. As a result of implementing this statement, the School District changed the classification of certain liabilities to deferred inflows. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has only one type of item, unavailable revenue, reported only in the governmental funds balance sheet and in the governmental activities statement of net position. The governmental funds report unavailable property tax revenues and taxes levied for future periods, which are deferred and recognized as an inflow of resources in the period that the amounts become available. The governmental activities report taxes levied for future periods, which are deferred and recognized as an inflow of resources in the period that the amounts become available.

Rounding

Computer generated rounding variances may exist in the basic financial statements and supplementary information. The variances result from values being entered with cents rather than as whole numbers.

Note 2 - Deposits and Investments Credit Risk, Concentrations of Credit Risk and Interest Rate Risk

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

Deposits

The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota. As of June 30, 2014 and 2013, the financial institution that holds the School District's deposits was not properly collateralized.

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

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 interest income from deposits and investments to each fund holding the deposits or investments in a proportional manner. Then at the end of each fiscal year, each fund transfers all of these earnings into the General Fund.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned. The School District's deposit policy requires deposits in excess of the Depository Insurance maximums to be 100% collateralized as required by South Dakota Codified Law. The financial institutions where the collateral is held must be a member of the FDIC. As of June 30, 2014 and 2013, the financial institution that holds the School District's deposits were not properly collateralized and the deposits at that institution were exposed to custodial credit risk as follows:

Depository Name	2014		2013	
	Percent Under-Collateralized	At-Risk Amount	Percent Under-Collateralized	At-Risk Amount
First National Bank of Frederick	15.73%	\$ 121,332	4.07%	\$ 25,456

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

Insured (FDIC/NCUA)	\$ 250,000
Uninsured, collateral jointly held by State's/School District's agent in the name of the State and the pledging State and the pledging financial institution	771,342
Total deposits	\$ 1,021,342

The School District's carrying amount of deposits at June 30, 2014 as \$1,014,792. Reconciliation of deposits to government-wide statement of net position:

Cash and cash equivalents	\$ 2,106,385
Add: Agency fund cash (not included in government-wide statement of net position)	74,127
Less: Money market investment account included in cash and cash equivalents	(1,165,720)
Total reconciled deposits	\$ 1,014,792

Investments

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

Investments held as of June 30, 2014 are as follows:

	Credit Rating	Maturity	Fair Value
External investment pools:			
SDFIT	Unrated	N/A	\$ 1,165,720

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing purposes. It is regulated by a nine member board with representation from municipalities, school districts, and counties.

The net asset value of the SD FIT money market account is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis. Since the School District has ready access to the cash, it is reported as cash and cash equivalents.

Custodial Credit Risk – The risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does not have an investment policy for custodial 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.

Credit Risk – State law limits eligible investments for School Districts, as discussed above. The School District has no investment policy that would further limit its investment choices. As of June 30, 2014, the School District’s investment in the SD FIT pool was unrated.

Concentration of Credit Risk – The School District places no limit on the amount that may be invested in any one issuer. One hundred percent of the School District’s investments are in the SD FIT pool.

Note 3 - Receivables and Payables

Receivables and payables are aggregated in the government-wide financial statements. However, the fund financial statements present the receivable and payable information in a non-aggregated format. The School District expects all receivables to be collected within one year. Based on the nature of the receivables, no allowances for estimates uncollectible have been established.

Note 4 - Changes in Capital Assets

A summary of changes in capital assets for the years ended June 30, 2014 and 2013 is as follows:

Primary Government Governmental Activities	Balance 07/01/13	Increases	Decreases	Balance 06/30/14
Capital assets not being depreciated:				
Land	\$ 2,000	\$ -	\$ -	\$ 2,000
Total capital assets not being depreciated	2,000	-	-	2,000
Capital assets being depreciated:				
Improvements other than buildings	47,152	-	-	47,152
Buildings	2,414,576	161,782	-	2,576,358
Machinery and equipment	433,328	35,741	-	469,069
Total capital assets being depreciated	2,895,056	197,523	-	3,092,579
Less accumulated depreciation for:				
Improvements other than buildings	43,003	1,426	-	44,429
Buildings	760,935	58,339	-	819,274
Machinery and equipment	127,985	42,147	-	170,132
Total accumulated depreciation	931,923	101,912	-	1,033,835
Total capital assets being depreciated, net	1,963,133	95,611	-	2,058,744
Governmental activity capital assets, net	\$ 1,965,133	\$ 95,611	\$ -	\$ 2,060,744
Depreciation expense was charged to functions as follows:				
Governmental activities				
Instruction				\$ 39,863
Support services				38,967
Cocurricular				23,082
Total depreciation expense - governmental activities				\$ 101,912
Business-Type Activities				
Capital assets being depreciated:				
Machinery and equipment	\$ 38,564	\$ -	\$ -	\$ 38,564
Total capital assets being depreciated	38,564	-	-	38,564
Less accumulated depreciation for:				
Machinery and equipment	36,878	233	-	37,111
Total accumulated depreciation	36,878	233	-	37,111
Total capital assets being depreciated, net	1,686	(233)	-	1,453
Business-type activities capital assets, net	\$ 1,686	\$ (233)	\$ -	\$ 1,453
Depreciation expense was charged to functions as follows:				
Business-type activities:				
Food services				\$ 233
Total depreciation expense - business-type activities				\$ 233

Frederick Area School District No. 6-2
Notes to Financial Statements
June 30, 2014 and 2013

Primary Government Governmental Activities	Balance 07/01/12	Increases	Decreases	Balance 06/30/13
Capital assets not being depreciated:				
Land	\$ 2,000	\$ -	\$ -	\$ 2,000
Construction work in progress	-	-	-	-
Total capital assets not being depreciated	2,000	-	-	2,000
Capital assets being depreciated				
Improvements other than buildings	47,152	-	-	47,152
Buildings	2,414,576	-	-	2,414,576
Machinery and equipment	450,903	40,823	(58,398)	433,328
Total capital assets being depreciated	2,912,631	40,823	(58,398)	2,895,056
Less accumulated depreciation for:				
Improvements other than buildings	38,937	4,066	-	43,003
Buildings	706,454	54,481	-	760,935
Machinery and equipment	146,697	39,686	(58,398)	127,985
Total accumulated depreciation	892,088	98,233	(58,398)	931,923
Total capital assets, being depreciated, net	2,020,543	(57,410)	-	1,963,133
Governmental activity capital assets, net	\$ 2,022,543	\$ (57,410)	\$ -	\$ 1,965,133

Depreciation expense was charged to functions as follows:

Governmental activities				
Instruction				\$ 34,384
Support services				41,699
Cocurricular				22,150
Total depreciation expense - governmental activities				\$ 98,233

Business-Type Activities	Balance 7/1/2012	Increases	Decreases	Balance 06/30/13
Capital assets being depreciated:				
Machinery and equipment	\$ 38,564	\$ -	\$ -	\$ 38,564
Total capital assets being depreciated	38,564	-	-	38,564
Less accumulated depreciation for:				
Machinery and equipment	36,645	233	-	36,878
Total accumulated depreciation	36,645	233	-	36,878
Total capital assets being depreciated, net	1,919	(233)	-	1,686
Business-type activities capital assets, net	\$ 1,919	\$ (233)	\$ -	\$ 1,686

Depreciation expense was charged to functions as follows:

Business-type activities:				
Food services				\$ 233
Total depreciation expense - business-type activities				\$ 233

Note 5 - Long-Term Debt

A summary of changes in long-term debt follows:

Primary Government	Beginning Balance 7/1/2012	Additions	Deletions	Ending Balance 6/30/2014	Due Within One Year
Governmental activities					
Bonds payable:					
Capital outlay certificates	\$ 43,689	\$ -	\$ 43,689	\$ -	\$ 55,434
Financing (Capital Acquisition) Lease	157,771	-	102,337	55,434	55,434
Early Retirement Payable	50,000	25,045	75,045	-	-
Other post retirement benefits	51,434	63,590	13,380	101,644	-
	<u>\$ 302,894</u>	<u>\$ 88,635</u>	<u>\$ 234,451</u>	<u>\$ 157,078</u>	<u>\$ 110,868</u>

Long-term debt as of June 30, 2014 is as follows:

Financing (Capital Acquisition) Lease

Midwest Leasing Inc., three passenger buses, matures July 2014, 4.87% interest
with annual payments made from the Capital Outlay Fund.

\$ 55,434

The annual requirements to maturity for all debt outstanding as of June 30, 2014 are as follows:

	Financing (Capital Acquisition Leases)		Totals	
	Principal	Interest	Principal	Interest
2015	\$ 55,434	\$ 1,775	\$ 55,434	\$ 1,775
	<u>\$ 55,434</u>	<u>\$ 1,775</u>	<u>\$ 55,434</u>	<u>\$ 1,775</u>

Note 6 - Early Retirement Plan

The School District has adopted a policy whereby teachers between the ages of 55 and 64 that have been employed with the School District for a minimum of 15 years are eligible for early retirement. The one-time benefit is \$25,000. Payment is made in one lump sum to SDRS on behalf of the retiree. During the years ended June 30, 2014 and 2013, total early retirement payments were \$25,000 and \$50,000, respectively.

Note 7 - Restricted Net Position

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

<u>Purpose</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay	Law	\$ 455,964
Special Education	Law	349,838
Pension	Law	97,379
Total restricted net position		<u>\$ 903,181</u>

Note 8 - Retirement Plan

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

Covered employees are required by State statute to contribute the following percentages of their salary to the plan: Class A Members, 6% of salary; Class B Judicial Members, 9% of salary; and Class B Public Safety Members, 8% 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 ended June 30, 2014, 2013 and 2012 were \$62,113, \$60,832 and \$54,825, respectively, equal to the required contributions each year.

Note 9 - Joint Ventures

The School District participates in two cooperative service units, North Central Special Education Cooperative and Hub Area Technical School, formed for the purpose of providing special education and other services to the member school districts.

North Central Special Education Cooperative

This is a multi-district cooperative service unit (Co-op) formed for the purpose of providing special education services to the member school districts. All members participate equally, members of the Co-op are as follows:

- | | |
|-----------------------------------|-------------------------------|
| Hitchcock-Tulare School District | Warner School District |
| Frederick Area School District | Langford Area School District |
| Northwestern Area School District | Groton Area School District |
| Doland School District | |

The North Central Special Education Cooperative's governing board is composed of one representative from each member school district. The Board is responsible for adopting the Co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The School District retains no equity interest in the net position of the Co-op, but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation described above. At June 30, 2014, the North Central Special Education Cooperative had fund equity of \$467,511 and no long-term debt.

Separate financial statements for this joint venture are available from North Central Special Education Cooperative.

Hub Area Technical School

The School District participates in the Hub Area Technical School (Co-op), a cooperative service unit formed for the purpose of providing educational services to the member school districts.

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

Aberdeen School District No. 6-1	89.89%
Frederick Area School District No. 6-2	4.46%
Northwestern Area School District No. 56-7	5.65%

Hub Area Technical School's Governing Board is composed of one to three representatives from each member school district, who are school board members. The Board is responsible for adopting the Co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The School District retains no equity interest in the net position of the Co-op, but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation described above. At June 30, 2014, the Hub Area Technical School had total net position of \$750,514 and long-term debt of \$2,078.

Separate financial statements are available from Hub Area Technical School.

The School District also participates in one cost sharing arrangement with other area school districts. The budgets are established annually for these programs with input from each participating school. The participating schools share these costs either based on the number of schools or students participating.

Note 10 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended June 30, 2014 and 2013, the School District managed its risks as follows:

Liability Insurance

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

Employee Health Insurance

The School District purchases health insurance for its employees from a commercial carrier.

Worker's Compensation Insurance

The School District participates, with several other educational units and related organizations in South Dakota, in the Association of School Boards Worker's Compensation Fund Pool which provided worker's compensation insurance coverage for participating members of the pool. The School District is responsible for payment of a premium to the insurance pool along with other pool participants. The School District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. For the years ended June 30, 2014 and 2013, the pool's retained risk was \$500,000 per occurrence with additional insurance purchased from a private insurance company for an additional \$500,000 for total coverage of \$1,000,000 per occurrence. There was no additional assessment charged to the pool members for the years ended June 30, 2014 and 2013.

Unemployment Benefits

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

During the year ended June 30, 2014 and 2013, \$0 and \$3,663 for unemployment benefits were paid. At June 30, 2014 and 2013, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

Note 11 - Postemployment Healthcare Plan

Plan Description

Frederick Area School District Healthcare Plan is a single-employer defined benefit healthcare plan administered by the School District. The plan provides medical insurance benefits to eligible retirees and their spouses as permitted by South Dakota Codified Law 6-1-16 and 13-10-3. Benefit provisions were established and may be amended during the negotiated agreement process between School District certified staff and the governing board. The health plan does not issue separately stated stand-alone financial statements.

Funding Policy

The contribution requirements of plan members and the School District are established and may be amended during the negotiated agreement process between School District certified staff and the governing board. A teacher or administrator, who retires from the School District on or after the age of 55 and with at least 15 years of consecutive service with the School District, may be eligible for retiree health insurance coverage. Coverage ceases when the retiree attains the age of 65. The retiree is responsible for 105% of the full active premium rates for either single or two-party coverage.

Annual OPEB Cost and Net OPEB Obligation

The School Districts annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB accounting Standards Codification Topic ASC P50. The School District has elected to calculate the ARC and related information using the alternative measurement method permitted by Topic ASC P50 for employers on plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the financial components of the plan:

	2014	2013
Annual required contribution (ARC)	\$ 36,136	\$ 27,767
Interest on net OPEB obligation	4,361	2,848
Adjustment to annual required contribution	(4,757)	(3,107)
Annual OPEB cost	35,740	27,508
Contributions made	(13,380)	-
Increase (decrease) in net OPEB obligation	22,360	27,508
Net OPEB obligation - July 1	79,284	51,776
Net OPEB obligation - June 30	\$ 101,644	\$ 79,284

The School District's annual OPEB cost data and net OPEB obligation was as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
2014	\$ 35,740	37.4%	\$ 101,644
2013	27,508	0.0%	79,284
2012	25,559	22.3%	51,776

Funded Status and Funding Process

As of June 30, 2014 and 2013, the plan's actuarial accrued liability (AAL) and the unfunded actuarial accrued liability (UAAL) for benefits were \$296,507 and \$192,840, respectively. The School District's plan is considered to be unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because the plan is unfunded, the AAL and UAAL are equal. The covered payroll (annual payroll of active employees covered by the plan) was \$939,562 and \$807,188, and the rate of the UAAL to the covered payroll was 31.56% and 23.89%, respectively.

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

Actuarial Methods and Assumptions

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

The following simplifying assumptions were made:

- Retirement Age for Active Employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62, or at the first subsequent year in which the member would qualify for benefits.
- Marital Status – Marital status of members at the calculation date was assumed to continue throughout retirement.
- Mortality – Life expectancies were based on mortality tables from the National Center for Health Statistics. The 19W9 United States Life Tables for Males and for Females were used.
- Turnover – Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.
- Healthcare Cost Trend Rate – The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 8.5% initially, reduced to an ultimate rate of 5.6% after six years, was used.
- Health Insurance Premiums – 2012 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

- Inflation Rate – The expected long-term inflation assumption of 3.3% was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.
- Payroll Growth Rate – The expected long-term payroll growth rate was assumed to equal the rate of inflation.

In the June 30, 2014 valuation, a simplified version of the entry age actuarial cost method was used. The simplifying assumptions included a 3.25% discount rate assuming the School District will fund the retirement benefit on a pay-as-you-go basis. The UAAL is being amortized as a level percentage of projected payrolls over a thirty year time period.

Note 12 - Litigation

At June 30, 2014, the School District was not involved in any litigation.

Note 13 - Transfers and Interfund Balances

Interfund receivable and payable balances at June 30, 2014 were:

	Interfund Receivable	Interfund Payable
General Fund	\$ 2,000	\$ -
Food Service Fund	-	2,000
	\$ 2,000	\$ 2,000

Amounts were advances by the General Fund to supplement cash flow for the Food Service Fund.

Interfund transfers at June 30, 2014 and 2013 are comprised of the following:

	2014
Transfers from: General Fund	\$ 6,000

	2013		
	General Fund	Business - Type Activities	
		Food Service Fund	Drivers Ed Fund
Transfer from:			
General Fund	\$ -	\$ 8,000	\$ 2,000
Internal Service Fund	22,754	-	-

The School District transferred money from the General Fund to driver's education fund and food service fund to supplement the funds. The School District closed the Internal Service Fund during the 2013 which was transferred into the General Fund.

Note 14 - Correction of Error

The School District has determined that certain transactions were recorded incorrectly in the prior year.

Utility gross receipts tax revenue and the related accounts receivables totaling \$13,491 were not recorded in the general fund. To correct this error, the beginning fund balance of the general fund of \$915,645, as originally reported, has been increased by \$13,491. It was also determine that the utility gross receipts tax revenue and related accounts receivables totaling \$41,697 and a capital asset totaling \$19,653 were not recorded in the governmental activities. To correct this error, the beginning net position balance of the governmental activities of \$3,405,779, as originally reported, has been increased to \$3,467,129.



Required Supplementary Information
June 30, 2014 and 2013

Frederick Area School District No. 6-2

Frederick Area School District No. 6-2
 Schedule of Funding Progress
 Year Ended June 30, 2014

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Unit Credit (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
June 30, 2014	\$ -	\$ 296,507	\$ 296,507	0.00%	939,562	31.56%
June 30, 2013	-	192,840	\$ 192,840	0.00%	807,188	23.89%
June 30, 2012	-	185,910	185,910	0.00%	870,114	21.37%

Frederick Area School District No. 6-2
 Budgetary Comparison Schedules – Budgetary Basis – General Fund
 Years Ended June 30, 2014 and 2013

	2014			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Positive Negative
Revenues				
Revenue from local sources				
Taxes:				
Ad valorem taxes	\$ 551,800	\$ 551,800	\$ 589,845	\$ 38,045
Prior year's ad valorem taxes	2,500	2,500	8,891	6,391
Gross receipts taxes	42,000	42,000	49,673	7,673
Penalties and interest on taxes	1,500	1,500	2,870	1,370
Earnings on investments and deposits	550	550	680	130
Cocurricular activities:				
Admissions	16,000	16,000	24,061	8,061
Other pupil activity income	500	500	960	460
Other revenue from local sources:				
Contributions and donations	-	-	318	318
Charges for services	8,000	8,000	9,146	1,146
Other	3,000	3,000	7,167	4,167
Revenue from intermediate sources				
County sources:				
County apportionment	15,000	15,000	14,968	(32)
Revenue from State sources				
Grants-in-aid:				
Unrestricted grants-in-aid	678,500	678,500	628,071	(50,429)
Other State revenue	-	-	258	258
Revenue from Federal sources				
Grants-in-aid:				
Restricted grants-in-aid received from Federal government through the State	57,550	57,550	57,317	(233)
Other Federal revenue	24,500	24,500	31,556	7,056
Total revenues	<u>1,401,400</u>	<u>1,401,400</u>	<u>1,425,781</u>	<u>24,381</u>
Expenditures				
Instruction				
Regular programs:				
Elementary	354,800	371,800	361,015	10,785
High school	329,350	329,350	324,297	5,053
Other regular programs	24,000	24,000	28,034	(4,034)
Special programs:				
Educationally deprived	37,605	38,105	38,015	90
Support services				
Pupils:				
Guidance	7,100	7,150	6,470	680
Drug and alcohol	300	300	139	161
Support services - instructional staff:				
Improvement of instruction	6,550	6,550	7,099	(549)
Educational media	55,475	56,975	48,921	8,054
Support services - general administration:				
Board of Education	18,450	18,450	14,222	4,228
Executive administration	81,700	81,700	79,347	2,353
Support services - school administration:				
Office of the Principal	80,985	81,685	81,629	56
Other	500	500	305	195

Frederick Area School District No. 6-2
 Budgetary Comparison Schedules – Budgetary Basis – General Fund
 Years Ended June 30, 2014 and 2013

	2014			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Positive (Negative)
Support services - business:				
Fiscal services	70,250	70,250	68,816	1,434
Operation and maintenance of plant	138,610	141,310	132,193	9,117
Pupil transportation	137,950	137,950	72,669	65,281
Cocurricular activities				
Male activities	35,650	41,350	41,304	46
Female activities	25,650	25,650	25,409	241
Transportation	9,550	9,550	8,049	1,501
Combined activities	16,950	16,950	13,457	3,493
Contingencies	30,000	30,000	-	30,000
Amounts transferred	-	(28,150)	-	(28,150)
Total expenditures	<u>1,461,425</u>	<u>1,461,425</u>	<u>1,351,390</u>	<u>110,035</u>
Excess of Revenue over (under) Expenditures	<u>(60,025)</u>	<u>(60,025)</u>	<u>74,391</u>	<u>134,416</u>
Other Financing Sources (Uses)				
Transfers in	73,375	73,375	-	(73,375)
Transfers out	(13,850)	(13,850)	(6,000)	7,850
Sale of surplus property	500	500	1,200	700
Total other financing sources (uses)	<u>60,025</u>	<u>60,025</u>	<u>(4,800)</u>	<u>(64,825)</u>
Net Change in Fund Balances	-	-	69,591	69,591
Fund Balance - Beginning	<u>986,983</u>	<u>986,983</u>	<u>986,983</u>	-
Fund Balance - Ending	<u>\$ 986,983</u>	<u>\$ 986,983</u>	<u>\$ 1,056,574</u>	<u>\$ 69,591</u>

Frederick Area School District No. 6-2
 Budgetary Comparison Schedules – Budgetary Basis – General Fund
 Years Ended June 30, 2014 and 2013

	2013			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Positive Negative
Revenues				
Revenue from local sources				
Taxes:				
Ad valorem taxes	\$ 545,765	\$ 545,765	\$ 551,458	\$ 5,693
Prior years' ad valorem taxes	8,000	8,000	2,374	(5,626)
Gross receipts taxes	38,000	38,000	65,590	27,590
Other taxes	150,000	150,000	-	(150,000)
Penalties and interest on taxes	-	-	1,523	1,523
Earnings on investments and deposits	2,000	2,000	643	(1,357)
Cocurricular activities:				
Admissions	10,000	10,000	16,486	6,486
Other pupil activity income	2,000	2,000	523	(1,477)
Other revenue from local sources:				
Charges for services	9,000	9,000	8,472	(528)
Other	-	-	2,678	2,678
Revenue from intermediate sources				
County sources:				
County apportionment	-	-	15,260	15,260
Revenue from State sources				
Grants-in-aid:				
Unrestricted grants-in-aid	463,203	463,203	635,940	172,737
Restricted grants-in-aid	27,000	27,000	28,794	1,794
Other State revenue	-	-	170	170
Revenue from Federal sources				
Grants-in-aid:				
Restricted grants-in-aid received from Federal government through the State	55,323	55,323	58,223	2,900
Other Federal revenue	17,825	17,825	7,528	(10,297)
Total revenues	<u>1,328,116</u>	<u>1,328,116</u>	<u>1,395,662</u>	<u>67,546</u>
Expenditures				
Instruction				
Regular programs:				
Elementary	411,615	411,615	367,298	44,317
High school	340,000	341,500	346,111	(4,611)
Other regular programs	7,210	7,210	3,370	3,840
Special programs:				
Educationally deprived	37,257	48,757	48,369	388
Other	17,038	17,038	17,038	-
Support services				
Pupils:				
Guidance	5,275	6,175	5,942	233

Frederick Area School District No. 6-2
 Budgetary Comparison Schedules – Budgetary Basis – General Fund
 Years Ended June 30, 2014 and 2013

	2013			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Positive Negative
Support services - instructional staff:				
Improvement of instruction	12,066	12,066	13,975	(1,909)
Educational media	18,000	24,000	19,453	4,547
Support services - general administration:				
Board of Education	32,000	33,750	23,183	10,567
Executive administration	84,250	87,950	86,760	1,190
Support services - school administration:				
Office of the Principal	82,025	82,025	77,742	4,283
Other	-	350	310	40
Support services - business:				
Fiscal services	60,140	64,540	64,138	402
Operation and maintenance of plant	180,000	210,000	129,009	80,991
Pupil transportation	149,000	149,000	57,730	91,270
Food service	20,000	20,000	-	20,000
Self insurance	-	3,670	3,663	7
Cocurricular activities				
Male activities	41,275	41,275	35,295	5,980
Female activities	26,275	26,275	18,859	7,416
Transportation	-	10,530	10,451	79
Combined activities	17,450	22,550	21,873	677
Contingencies	30,000	30,000	-	30,000
Amounts transferred	-	(30,000)	-	(30,000)
Total expenditures	<u>1,570,876</u>	<u>1,620,276</u>	<u>1,350,569</u>	<u>269,707</u>
Excess of Revenue over (under) Expenditures	<u>(242,760)</u>	<u>(292,160)</u>	<u>45,093</u>	<u>337,253</u>
Other Financing Sources (Uses)				
Transfers in	-	-	22,754	22,754
Transfers out	-	-	(10,000)	(10,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>12,754</u>	<u>12,754</u>
Net Change in Fund Balances	<u>(242,760)</u>	<u>(292,160)</u>	<u>57,847</u>	<u>350,007</u>
Fund Balance - Beginning	915,645	915,645	915,645	-
Correction of Error	13,491	13,491	13,491	-
Fund Balance - Beginning, Restated	<u>929,136</u>	<u>929,136</u>	<u>929,136</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 686,376</u>	<u>\$ 636,976</u>	<u>\$ 986,983</u>	<u>\$ 350,007</u>

Frederick Area School District No. 6-2
 Budgetary Comparison Schedules – Budgetary Basis – Capital Outlay Fund
 Years Ended June 30, 2014 and 2013

	2014			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Positive (Negative)
Revenues				
Revenue from local sources				
Taxes:				
Ad valorem taxes	\$ 406,400	\$ 406,400	\$ 466,206	\$ 59,806
Prior year's ad valorem taxes	1,400	1,400	4,834	3,434
Penalties and interest on taxes	1,100	1,100	1,832	732
Other revenue from local sources (uses):				
Contributions and donations	-	-	8,000	8,000
Total Revenues	<u>408,900</u>	<u>408,900</u>	<u>480,872</u>	<u>71,972</u>
Expenditures				
Instruction				
Regular programs:				
Elementary	46,250	46,250	38,861	7,389
High school	27,850	27,850	25,150	2,700
Support services				
Support services - pupil	300	300	-	300
Guidance				
Support services - general administration:				
Executive administration	2,500	2,500	2,472	28
Support services - business:				
Fiscal services	3,550	3,550	3,550	-
Facilities acquisition and construction	30,500	179,700	182,653	(2,953)
Operation and maintenance of plant	85,000	95,300	94,847	453
Pupil transportation	133,500	133,500	108,525	24,975
Food service	1,200	1,200	1,124	76
Debt service				
Cocurricular activities				
Male activities	6,600	6,600	3,687	2,913
Female activities	5,300	5,300	5,126	174
Total expenditures	<u>342,550</u>	<u>502,050</u>	<u>465,995</u>	<u>36,055</u>
Excess of Revenue over (under) Expenditures	<u>66,350</u>	<u>(93,150)</u>	<u>14,877</u>	<u>108,027</u>
Other Financing Sources (Uses)				
Transfers out	<u>(66,350)</u>	<u>(66,350)</u>	<u>-</u>	<u>66,350</u>
Total other financing sources (uses)	<u>(66,350)</u>	<u>(66,350)</u>	<u>-</u>	<u>66,350</u>
Net Change in Fund Balance	-	(159,500)	14,877	174,377
Adjusted Fund Balance - Beginning	<u>439,471</u>	<u>439,471</u>	<u>439,471</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 439,471</u>	<u>\$ 279,971</u>	<u>\$ 454,348</u>	<u>\$ 174,377</u>

Frederick Area School District No. 6-2
 Budgetary Comparison Schedules – Budgetary Basis – Capital Outlay Fund
 Years Ended June 30, 2014 and 2013

	2013			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Positive Negative
Revenues				
Revenue from local sources				
Taxes:				
Ad valorem taxes	\$ 354,045	\$ 354,045	425,336	\$ 71,291
Prior year's ad valorem taxes	-	-	1,415	1,415
Penalties and interest on taxes			-	
Other	-	-	1,147	1,147
Earnings on investments and deposits	1,000	1,000	-	(1,000)
Other revenue from local sources:				
Contributions and donations	-	-	21,633	21,633
Total revenues	<u>355,045</u>	<u>355,045</u>	<u>449,531</u>	<u>94,486</u>
Expenditures				
Instruction				
Regular programs:				
Elementary	26,000	39,000	38,648	352
High school	150,000	150,000	75,879	74,121
Special programs:				
Other	8,045	8,045	-	8,045
Support services - school administration:				
Office of the Principal	2,000	2,300	2,256	44
Other school admin	2,000	3,000	2,843	157
Support services - business:				
Fiscal services	2,000	2,000	1,487	513
Facilities acquisition and construction	80,000	80,000	21,633	58,367
Operation and maintenance of plant	10,000	99,500	89,062	10,438
Pupil transportation	60,000	125,000	124,513	487
Food service	5,000	5,000	2,736	2,264
Debt service	44,783	44,783	44,781	2
Cocurricular activities				
Male activities	5,000	5,000	4,768	232
Female activities	5,000	5,000	297	4,703
Total expenditures	<u>399,828</u>	<u>568,628</u>	<u>408,903</u>	<u>159,725</u>
Excess of Revenue over (under) Expenditures	<u>(44,783)</u>	<u>(213,583)</u>	<u>40,628</u>	<u>254,211</u>
Other Financing Sources (Uses)				
Sale of surplus property	1,000	1,000	-	(1,000)
Transfers out	(1,000)	(1,000)	-	1,000
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(44,783)	(213,583)	40,628	254,211
Adjusted Fund Balance - Beginning	<u>398,843</u>	<u>398,843</u>	<u>398,843</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 354,060</u>	<u>\$ 185,260</u>	<u>\$ 439,471</u>	<u>\$ 254,211</u>

Frederick Area School District No. 6-2
 Budgetary Comparison Schedules – Budgetary Basis – Special Education Fund
 Years Ended June 30, 2014 and 2013

	2014			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Revenue from local sources				
Taxes:				
Ad valorem taxes	\$ 186,100	\$ 186,100	\$ 227,222	\$ 41,122
Prior year's ad valorem taxes	400	400	1,758	1,358
Penalties and interest on taxes	300	300	742	442
Other revenue from local sources (uses):				
Other	600	600	657	57
Revenue from Federal sources				
Grants-in-aid:				
Restricted grants-in-aid received from Federal government through the State	-	-	6,280	6,280
Total revenues	<u>187,400</u>	<u>187,400</u>	<u>236,659</u>	<u>49,259</u>
Expenditures				
Instruction				
Special programs:				
Programs for special education	121,120	138,220	138,119	101
Coordinated Early Intervening Services	-	-	6,280	(6,280)
Support services				
Pupils:				
Psychological	1,900	3,550	3,505	45
Speech pathology	3,950	7,310	7,303	7
Student therapy services	16,000	16,000	11,500	4,500
Support services - special education:				
Administrative costs	4,650	4,750	1,853	2,897
Total expenditures	<u>147,620</u>	<u>169,830</u>	<u>168,560</u>	<u>1,270</u>
Excess of Revenue over (under) Expenditures	<u>39,780</u>	<u>17,570</u>	<u>68,099</u>	<u>50,529</u>
Other Financing Sources (Uses)				
Transfers out	<u>(39,780)</u>	<u>(39,780)</u>	<u>-</u>	<u>39,780</u>
Total other financing sources (uses)	<u>(39,780)</u>	<u>(39,780)</u>	<u>-</u>	<u>39,780</u>
Net Change in Fund Balance	-	(22,210)	68,099	90,309
Fund Balance - Beginning	<u>281,119</u>	<u>281,119</u>	<u>281,119</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 281,119</u>	<u>\$ 258,909</u>	<u>\$ 349,218</u>	<u>\$ 90,309</u>

Frederick Area School District No. 6-2
 Budgetary Comparison Schedules – Budgetary Basis – Special Education Fund
 Years Ended June 30, 2014 and 2013

	2013			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Positive (Negative)
Revenues				
Revenue from local sources				
Taxes:				
Ad valorem taxes	\$ 123,622	\$ 123,622	\$ 164,484	\$ 40,862
Prior year's ad valorem taxes	-	-	425	425
Penalties and interest on taxes	-	-	350	350
Other revenue from local sources:				
Other	42,378	42,378	-	(42,378)
Revenue from State sources				
Medicaid	9,000	9,000	608	(8,392)
Grants-in-aid:				
Restricted grants-in-aid	-	-	1,000	1,000
Total revenues	<u>175,000</u>	<u>175,000</u>	<u>166,867</u>	<u>(8,133)</u>
Expenditures				
Instruction				
Special programs:				
Programs for special education	145,150	145,150	134,243	10,907
Support services				
Pupils:				
Other services	16,850	16,850	-	16,850
Psychological	-	3,300	3,210	90
Speech pathology	-	7,000	6,955	45
Student therapy services	12,000	16,700	16,172	528
Support services - special education:				
Administrative costs	-	4,400	3,197	1,203
Total expenditures	<u>174,000</u>	<u>193,400</u>	<u>163,777</u>	<u>29,623</u>
Excess of Revenue over (under) Expenditures	<u>1,000</u>	<u>(18,400)</u>	<u>3,090</u>	<u>21,490</u>
Other Financing Sources (Uses)				
Transfers out	<u>(1,000)</u>	<u>(1,000)</u>	<u>-</u>	<u>1,000</u>
Total other financing sources (uses)	<u>(1,000)</u>	<u>(1,000)</u>	<u>-</u>	<u>1,000</u>
Net Change in Fund Balance	-	(19,400)	3,090	22,490
Fund Balance - Beginning	<u>278,029</u>	<u>278,029</u>	<u>278,029</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 278,029</u>	<u>\$ 258,629</u>	<u>\$ 281,119</u>	<u>\$ 22,490</u>

Frederick Area School District No. 6-2
 Budgetary Comparison Schedules – Budgetary Basis – Pension Fund
 Years Ended June 30, 2014 and 2013

	2014			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Revenue from local sources				
Taxes:				
Ad valorem taxes	\$ 40,550	\$ 40,550	\$ 46,636	\$ 6,086
Prior year's ad valorem taxes	150	150	509	359
Penalties and interest on taxes	100	100	158	58
Total revenues	<u>40,800</u>	<u>40,800</u>	<u>47,303</u>	<u>6,503</u>
Expenditures				
Nonprogrammed charges				
Early retirement payments	-	25,045	25,045	-
Total expenditures	<u>-</u>	<u>25,045</u>	<u>25,045</u>	<u>-</u>
Excess of Revenue over (under) Expenditures	<u>40,800</u>	<u>15,755</u>	<u>22,258</u>	<u>6,503</u>
Other Financing Sources (Uses)				
Transfers out	<u>(40,800)</u>	<u>(40,800)</u>	-	<u>40,800</u>
Total other financing sources (uses)	<u>(40,800)</u>	<u>(40,800)</u>	-	<u>40,800</u>
Net Change in Fund Balance	-	(25,045)	22,258	47,303
Fund Balance - Beginning	<u>74,959</u>	<u>74,959</u>	<u>74,959</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 74,959</u>	<u>\$ 49,914</u>	<u>\$ 97,217</u>	<u>\$ 47,303</u>

Frederick Area School District No. 6-2
 Budgetary Comparison Schedules – Budgetary Basis – Pension Fund
 Years Ended June 30, 2014 and 2013

	2013			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Positive Negative
Revenues				
Revenue from local sources				
Taxes:				
Ad valorem taxes	\$ 41,207	\$ 41,207	\$ 42,232	\$ 1,025
Prior year's ad valorem taxes	-	-	141	141
Penalties and interest on taxes	-	-	115	115
Earnings on investments and deposits	500	500	-	(500)
Other revenue from local sources (uses):				
Other	14,293	14,293	-	(14,293)
Total revenues	<u>56,000</u>	<u>56,000</u>	<u>42,488</u>	<u>(13,512)</u>
Expenditures				
Support Services				
Nonprogrammed charges:				
Early retirement payments	56,000	56,000	50,000	6,000
Total expenditures	<u>56,000</u>	<u>56,000</u>	<u>50,000</u>	<u>6,000</u>
Net Change in Fund Balance	-	-	(7,512)	(7,512)
Fund Balance - Beginning	<u>82,471</u>	<u>82,471</u>	<u>82,471</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 82,471</u>	<u>\$ 82,471</u>	<u>\$ 74,959</u>	<u>\$ (7,512)</u>

Note 1 - Basis of Presentation

The budgetary comparison schedules have been prepared on the modified accrual basis of accounting. The budgetary comparison schedules present expenditures for capital outlay purposes within each function while the governmental funds statements of revenues, expenditures and changes in fund balance presents capital outlay expenditures as a separate function.

Note 2 - Budgetary Legal Requirements

Budgets and Budgetary Accounting

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

1. Prior to the first regular Board meeting in May of each year, the School Board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the School Board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the School Board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in Number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5% 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.
8. If it is determined during the year that sufficient amounts have not been budgeted, State statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund, Capital Project Funds, and Special Revenue Funds. Formal budgetary integration is not employed for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The School Board
Frederick Area School District No. 6-2
Frederick, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Frederick Area School District No. 6-2 (the School District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated December 8, 2014.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying auditor's comments, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying auditor's comments as 2014-C to be a significant deficiency.

Compliance and Other Matters

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

Example Entity's Response to Findings

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

Purpose of this Report

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



Aberdeen, South Dakota
December 8, 2014

Status of Prior Audit Recommendations

Finding 2012-1

There was a lack of segregation of duties in the revenue, expenditure and payroll functions due to the size of the School District.

Current Status: This has not been corrected and is restated as a current audit finding 2014-A.

Finding 2012-2

The School District does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Current Status: This has not been corrected and is restated as current audit finding 2014-B.

Finding 2012-3

We identified misstatements in the School District's financial statements causing us to propose material audit adjustments.

Current Status: This has not been corrected and is restated as current audit finding 2014-B.

Finding 2012-4

The School District failed to comply with specific South Dakota Codified Laws.

Current Status: This has not been corrected and is restated as current audit finding 2014-C.

Current Audit Findings and Recommendations

Finding 2014-A Lack of Segregation of Duties

Condition: Frederick Area School District No. 6-2 has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions because of a lack of segregation of duties.

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause: The School District has insufficient number of staff to adequately separate duties.

Effect: This condition increases the risk that fraud or errors might occur in the financial reporting process.

Recommendation: Although it is recognized that the number of office staff may not be large enough to permit an adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the School Board exercise adequate oversight of the accounting function.

Management's Response: Management accepts the risk associated with lack of segregation of duties in the School District.

Finding 2014-B Preparation of Financial Statements and Footnotes and Significant Journal Entries

Condition: Frederick Area School District No. 6-2 requested the external auditors to assist in the preparation of the financial statements and related footnotes for the year ended June 30, 2014. As part of the financial statement preparation process, at times we propose material audit adjustments that are not identified as a result of the School District's existing internal controls and; therefore, could result in a misstatement of the School District's financial statements.

Criteria: The School District's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with generally accepted accounting principles.

Cause: The limited size of the School District's staff and resources cause the inability to prepare the financial statements and footnotes and could cause the need for auditors to, at times, propose material journal entries.

Effect: This condition may affect the School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Recommendation: This circumstance is not unusual in an organization of this 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. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure generally accepted accounting principles have been followed for each fund type, especially for transaction types infrequent in occurrence.

Management's Response: Management accepts the risk associated with preparation of the final audited financial statements by the independent auditor.

Finding 2014-C Compliance with South Dakota Codified Law (SDCL)

Condition: Frederick Area School District No. 6-2 did not cause to be published the proceedings of its December 2012 board meeting. Also, during 2013 and 2014, the board president was paid by the School District as a bus driver in excess of the allowable limits provided by State law.

Criteria: The School District's internal control structure should be designed to provide for compliance with the South Dakota Codified Laws.

Cause: These errors were a result of the school board and administration not being aware of the specific state laws and oversight to ensure that proceedings provided to the designated newspaper have been published in a timely manner.

Effect: The South Dakota Department of Education could impose sanctions for noncompliance with State law.

Recommendation: We recommend the School District take greater care to ensure it is in compliance with all applicable State laws.

Management's Response: Subsequent to year end, the noted board member is no longer serving on the School District's board of directors. In addition, rules related to transactions with board members will be reviewed to ensure compliance in future School District business activity. Closer oversight will be given to the publication of information provided to the designated newspaper.