

GAYVILLE-VOLIN SCHOOL DISTRICT NO. 63-1

GAYVILLE, SOUTH DAKOTA

FINANCIAL REPORT

FOR THE TWO YEARS ENDING JUNE 30, 2014

WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

Benjamin Elliott, CPA
P.O. Box 262
Madison, South Dakota 57042

GAYVILLE-VOLIN SCHOOL DISTRICT NO. 63-1
GAYVILLE, SOUTH DAKOTA

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FOR THE TWO YEARS ENDING JUNE 30, 2014

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

INDEPENDENT AUDIT SERVICES, PC

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School Board
Gayville-Volin School District No. 63-1
Gayville, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying financial statements of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Gayville-Volin School District No. 63-1 (School District), Gayville, South Dakota as of June 30, 2014 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Unmodified Opinions

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

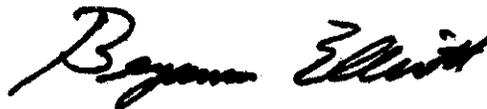
Other Matters - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (page 3 to 9) and the budgetary comparison schedule (page 37 to 45) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting by placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report (page 46) dated February 13, 2015 on my tests of Gayville-Volin School District's compliance with certain provisions of laws, regulations, contracts and other matters and my consideration of its internal control over financial reporting. The purpose of that report is to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on compliance or internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's compliance and internal control over financial reporting.

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



February 13, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the Gayville-Volin School District No. 63-1's (School District) annual financial report presents our discussion and analysis of the School District's financial performance during the two fiscal years ending June 30, 2014. Please read it in conjunction with the School District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Financial highlights for the Gayville-Volin School District are as follows:

<u>For the year ending:</u>	6-30-2014	6-30-2013
Revenue:		
Charges for goods and services	159,218	157,383
Operating grants	374,968	487,518
Capital grants	0	0
General receipts	2,359,071	2,353,814
	-----	-----
Total	2,893,257	2,998,715
	-----	-----
Expenses:		
Governmental	2,381,977	2,392,747
Business-type	187,945	190,436
	-----	-----
Total	2,569,922	2,583,183
	-----	-----
Increase in Net Position	323,335	415,532
Net Position:		
July 1, 2012		3,464,140

June 30, 2013	3,879,672	3,879,672
	-----	=====
June 30, 2014	4,203,007	
	=====	
Governmental Funds:		
General	862,473	792,564
Capital Outlay	422,202	500,034
Special Education	5,345	8,336
Pension	3,467	765
Debt Service	288,342	289,892
Long-term Debt	(1,359,500)	(1,258,750)
Capital Assets	3,830,851	3,389,964
Business-Type Funds:		
Food Service	53,435	57,888
Child Care	96,392	98,979
	-----	-----
Total	4,203,007	3,879,672
	=====	=====

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

- * Contracted for a building addition for \$221,382.
- * Purchased furniture for the building addition for \$19,958.
- * Contracted for track improvements for \$310,123.
- * Contracted for a track storage building for \$20,400.
- * Purchased library books for \$913.
- * Paid down long-term debt by \$250,000.
- * Issued capital outlay certificates for \$350,000,

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

- * Purchased a 2004 IC 59 passenger school bus for \$30,000.
- * Purchased a 2004 IC 71 passenger school bus for \$35,000.
- * Purchased wooden lockers for the elementary school for \$7,310.
- * Purchased library books for \$2,486.
- * Paid down long-term debt by \$255,000.

BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

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

The financial report consists of three parts: (1) management's discussion and analysis (page 3 to 9), (2) the basic financial statements (page 10 to 36) and (3) required supplementary information (page 37 to 45). The basic financial statements include two types of statements that present the School District from two different financial points of view.

Government-wide financial statements (View #1):

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

Fund financial statements (View #2):

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

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

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

The fiduciary fund financial statements provide information about the financial status of activities (like cheerleaders or a science club) in which the School District acts solely as a trustee or agent for the benefit of those groups to whom these funds belong. The School District only has agency fiduciary funds.

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

Required Supplementary Information:

This Management's Discussion and Analysis (page 3 to 9) and the Budgetary Comparison Schedules (page 37 to 45) is financial information required to be presented by GASB. Such information provides readers of this report with additional data that supplements the government-wide statements and fund financial statements. The Budgetary Comparison Schedules are presented on a budgetary basis of accounting, which reports capital expenditures within their respective expenditure function rather than as a separate capital outlay expenditure.

GOVERNMENT-WIDE STATEMENTS

(Reporting the School District as a whole)

The government-wide statements (page 10 to 12) report information about the School District as a whole using accounting methods similar to those used for private companies. There are two government-wide statements: the Statement of Net Position and the Statement of Activities.

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

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

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

The governmental activities include (1) basic instructional services such as elementary, high school, and special education programs, (2) support services such as guidance, library, administration, and transportation, (3) debt services such as payments on the School District's general obligation bonds and capital outlay certificates, and (4) extracurricular activities such as sports and music. Property taxes, state and federal grants, and interest earnings finance most of these activities.

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

FUND FINANCIAL STATEMENTS

(Reporting the School District's most significant funds)

The fund financial statements (page 13 to 20) provide more detailed information about the School District's most significant funds, not the School District as a whole. Funds are accounting tools used to keep track of the receipt and disbursement of School District's resources. State law requires the use of some funds and the school board establishes other funds to manage money for a specific purpose, like a capital project fund for a new building.

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

Governmental funds: Most of the School District's basic services are included in the governmental funds, which focus on (1) how cash, and other financial assets which can readily be converted into cash, flow in and out of that fund, and (2) the balances left at year-end that are available for spending in the next year. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources available for spending in the near future to finance the School District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements to reconcile the differences between the governmental fund statements and the government-wide statements.

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

Fiduciary funds: The School District is the agent (or fiduciary) for various external and internal parties. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. Fiduciary funds are excluded from the School District's government-wide financial statements because the School District cannot use these assets to finance the School District's operations.

MATERIAL CHANGES IN STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

(Material changes for governmental activities = changes greater than \$150,000)
 (Material changes for business-type activities = changes greater than \$ 10,000)

	Increase (Decrease)	Reason
<u>Year Ending June 30, 2014</u>		
Governmental Activities:		
Capital assets	441,000	Track complex and building addition.
Business-type Activities:		
None to report		

Year Ending June 30, 2013

Governmental Activities:		
Current assets	209,000	Excess revenue.
Long-term liabilities (250,000)		Pay down of debt.
Business-type Activities:		
Food service	10,000	Increased cost of food.

SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

In FY14 the School District's general fund budget of \$1,681,089 is a decrease of \$187,866 or 10.06% from FY13. There was one supplemental appropriation to the general fund budget of \$13,500. See page 37 for more information.

In FY13 the School District's general fund budget of \$1,868,955 is an increase of \$120,545 or 6.90% from FY12. There was one supplemental appropriation to the general fund budget of \$40,100. See page 38 for more information.

SIGNIFICANT CAPITAL ASSET ACTIVITY

At June 30, 2014, the School District had invested \$3,941,061 in a broad range of capital assets, including land, buildings, improvements and equipment. This amount represents a net increase (including additions and deductions) of \$435,934 or 12.44% from June 30, 2013.

At June 30, 2013, the School District had invested \$3,505,127 in a broad range of capital assets, including land, buildings, improvements and equipment. This amount represents a net decrease (including additions and deductions) of \$55,273 or 1.56% from June 30, 2012.

Significant capital asset activity is reported above. See page 35 for more information.

SIGNIFICANT LONG-TERM DEBT ACTIVITY

At June 30, 2014, the School District had total debt of \$1,359,500. This amount represents a net increase of \$100,750, or 8.0% from June 30, 2013.

At June 30, 2013 the School District had total debt of \$1,258,750. This amount represents a net decrease of \$257,250, or 16.9% from June 30, 2012.

Significant long-term debt activity is reported above. Principal and interest payments, which are due on July 1st, are budgeted and paid as if they are due on June 30th. School District is current on all long-term debt. See page 36 for more information.

CURRENTLY KNOWN FACTS

In September 2014 a site visit was completed for a grant for a sidewalk project which will cost up to \$87,000. If the grant is approved the school will be responsible for approximately 18% of the cost.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Gayville-Volin School District's business office at P.O. Box 158, Gayville, SD 57031.

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

	Governmental Activities			Business-Type Activities			Total Government		
	FY14	FY13	FY12	FY14	FY13	FY12	FY14	FY13	FY12
Current assets	2,288	2,267	2,058	44	46	43	2,332	2,313	2,101
Capital assets	3,831	3,390	3,441	110	115	120	3,941	3,505	3,561
Total assets	6,119	5,657	5,499	154	161	163	6,273	5,818	5,662
Current liabilities	235	215	242	4	4	9	239	219	251
Current maturities on deb	260	250	255				260	250	255
Long-term liabilities	1,066	1,005	1,255				1,066	1,005	1,255
Deferred inflows	505	464	437				505	464	437
Total liabilities/inflows	2,066	1,934	2,189	4	4	9	2,070	1,938	2,198
Net position:									
Capital, net of debt	2,476	2,135	1,930	110	115	120	2,586	2,250	2,050
Restricted	719	799	666				719	799	666
Unrestricted	858	789	714	40	42	34	898	831	748
Total net position	4,053	3,723	3,310	150	157	154	4,203	3,880	3,464

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

	Governmental Activities			Business-Type Activities			Total Government		
	FY14	FY13	FY12	FY14	FY13	FY12	FY14	FY13	FY12
Revenues:									
Program revenues:									
Charges for services	45	38	35	114	120	113	159	158	148
Grants and contribution	308	414	427	67	73	74	375	487	501
General revenues:									
All taxes	1,043	992	937				1,043	992	937
State sources	1,197	1,184	1,183				1,197	1,184	1,183
Interest earnings	12	10	7				12	10	7
Other	107	168	121				107	168	121
Total revenues	2,712	2,806	2,710	181	193	187	2,893	2,999	2,897
Expenses:									
Instruction	1,362	1,506	1,521				1,362	1,506	1,521
Support	857	747	697				857	747	697
Cocurricular activities	129	108	107				129	108	107
Interest and fees	34	32	64				34	32	64
Food service				120	119	109	120	119	109
Child care				68	71	71	68	71	71
Total expenses	2,382	2,393	2,389	188	190	180	2,570	2,583	2,569
Increase (decrease) in net position	330	413	321	(7)	3	7	323	416	328
Other financing sources (uses):									
None							0	0	0
Net change in net positio	330	413	321	(7)	3	7	323	416	328
Net position:									
June 30, 2011			2,989			147			3,136
June 30, 2012		3,310	3,310		154	154		3,464	3,464
June 30, 2013	3,723	3,723		157	157		3,880	3,880	
June 30, 2014	4,053			150			4,203		

STATEMENT OF NET POSITION
AS OF JUNE 30, 2014

	Primary Government		Total
	Governmental Activities	Business- Type Activities	
ASSETS			
Current assets:			
Cash and cash equivalents	928,014	39,017	967,031
Certificates of deposit	755,167		755,167
Advanced to trust & agency imprest	6,000		6,000
Receivables:			
Property taxes - current	505,159		505,159
Property taxes - delinquent	41,320		41,320
Due from other governments	50,540	166	50,706
Accounts		1,961	1,961
Inventory	2,000	2,757	4,757
Total current assets	2,288,200	43,901	2,332,101
Capital assets:			
Land	48,118	9,000	57,118
Buildings	4,582,019	97,195	4,679,214
Improvements	474,036		474,036
Equipment	482,425	47,958	530,383
Library books	45,339		45,339
Accumulated depreciation	(1,801,086)	(43,943)	(1,845,029)
Total capital assets	3,830,851	110,210	3,941,061
Total assets	6,119,051	154,111	6,273,162
LIABILITIES			
Current liabilities:			
Accounts payable	44,681	750	45,431
Contracts payable	121,142	1,784	122,926
Payroll deductions payable	35,389	222	35,611
Prepaid meals		1,528	1,528
Noncurrent liabilities due in one year:			
2009 Limited general obligation certifi	55,000		55,000
2011 General obligation refunding bonds	205,000		205,000
2013 Capital Outlay Certif (QZAB bonds)	29,167		29,167
Accrued leave	4,500		4,500
Total current liabilities	494,879	4,284	499,163
Noncurrent liabilities:			
2009 Limited general obligation certif.	110,000		110,000
2011 General obligation refunding bonds	635,000		635,000
2013 Capital Outlay Certif (QZAB bonds)	320,833		320,833
Total noncurrent liabilities	1,065,833	0	1,065,833
Total liabilities	1,560,712	4,284	1,564,996
DEFERRED INFLOW OF RESOURCES			
Taxes levied for a future period	505,159		505,159
Total deferred inflow of resources	505,159	0	505,159
NET POSITION			
Net invested in capital assets	2,475,851	110,210	2,586,061
Restricted for:			
Capital outlay	422,202		422,202
Special education	5,345		5,345
Pension	3,467		3,467
Debt Service	288,342		288,342
Unrestricted	857,973	39,617	897,590
Total net position	4,053,180	149,827	4,203,007

See accompanying notes.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDING JUNE 30, 2013

Functions/Programs:	Program Revenues				Net Revenue (Expense) and Changes in Net Position		
	Expenses	Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Primary government:							
Governmental activities:							
Instruction	1,506,169		207,115		(1,299,054)		(1,299,054)
Support services	746,324	27,542	207,115		(511,667)		(511,667)
Cocurricular activities	108,031	10,110			(97,921)		(97,921)
Interest and fees on debt (all)	32,223				(32,223)		(32,223)
Total governmental activities	2,392,747	37,652	414,230	0	(1,940,865)	0	(1,940,865)
Business-type activities:							
Food service	118,823	52,345	67,949			1,471	1,471
Child care	71,613	67,386	5,339			1,112	1,112
Total primary government	2,583,183	157,383	487,518	0	(1,940,865)	2,583	(1,938,282)
General revenue:							
Property taxes					913,988		913,988
Gross receipts tax					77,907		77,907
Revenue from state sources:							
State aid					1,179,707		1,179,707
Other					4,750		4,750
Interest earnings					9,729	16	9,745
Fines					21,744		21,744
Donations					121,616		121,616
Sale of surplus property					240		240
Other general revenues					24,117		24,117
Transfers					0	0	0
Total general revenue and transfers					2,353,798	16	2,353,814
Change in net position					412,933	2,599	415,532
Net position, July 1, 2012					3,309,872	154,268	3,464,140
Net position, June 30, 2013					3,722,805	156,867	3,879,672

See accompanying notes.

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

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Debt Service Fund	Total Governmental Funds
ASSETS						
Cash and cash equivalents	175,211	434,874	36,964	2,833	278,132	928,014
Certificates of deposit	755,167					755,167
Advanced to trust & agency impres	6,000					6,000
Receivables:						
Property taxes - current	155,487	149,184	78,914	14,898	106,676	505,159
Property taxes - delinquent	14,291	10,961	5,224	634	10,210	41,320
Due from other governments	50,540					50,540
Inventory of supplies	2,000					2,000
Total assets	1,158,696	595,019	121,102	18,365	395,018	2,288,200
LIABILITIES						
Accounts payable	12,149	23,633	8,899			44,681
Contracts payable	99,355		21,787			121,142
Payroll deductions payable	29,232		6,157			35,389
Total liabilities	140,736	23,633	36,843	0	0	201,212
DEFERRED INFLOW OF RESOURCES						
Taxes levied for a future period	155,487	149,184	78,914	14,898	106,676	505,159
Unavailable revenue:						
Property taxes - delinquent	14,291	10,961	5,224	634	10,210	41,320
Total deferred inflow of resources	169,778	160,145	84,138	15,532	116,886	546,479
FUND BALANCE						
Nonspendable	2,000					2,000
Restricted		411,241	121	2,833	278,132	692,327
Committed						0
Assigned	48,888					48,888
Unassigned	797,294					797,294
Total fund balance	848,182	411,241	121	2,833	278,132	1,540,509
Total liabilities, deferred inflow of resources and fund balance	1,158,696	595,019	121,102	18,365	395,018	2,288,200

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

Total fund balance - governmental funds (above) 1,540,509

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Therefore:
 Add the cost of capital assets 5,631,937
 Subtract the associated accumulated depreciation (1,801,086)

Long-term liabilities are not due and payable in the current period. Therefore, subtract the following long-term liabilities (165,000)
 2009 Limited general obligation certif. (840,000)
 2011 General obligation refunding bonds (350,000)
 2013 Capital Outlay Certif (QZAB bonds) (4,500)
 Accrued leave

Assets such as taxes receivable (delinquent) are not available to pay of current period expenditures and therefore are deferred in the funds. 41,320

Total net position on government-wide statement of net position 4,053,180

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

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Debt Service Fund	Total Governmental Funds
Revenue:						
Revenue from local sources:						
Taxes:						
Ad valorem taxes	297,856	280,780	140,472	28,057	211,456	958,621
Mobile home taxes	2,608	1,668	831	167	1,260	6,534
Prior year ad valorem taxes	5,253	3,555	1,664	172	3,335	13,979
Gross receipts	52,165					52,165
Penalties and interest	1,958	959	452	47	883	4,299
Interest earned	10,731	569		13	208	11,521
Cocurricular activities:						
Admissions	14,825					14,825
Other revenue from local sources:						
Donations	100	66,916				67,016
Medicaid	22,873		7,418			30,291
Other	13,928					13,928
Total revenue from local source	422,297	354,447	150,837	28,456	217,142	1,173,179
Revenue from intermediate sources:						
County sources:						
County fines apportionment	25,738					25,738
Revenue from state sources:						
Unrestricted grants-in-aid	1,184,686					1,184,686
Restricted grants-in-aid		12,387	224,633			237,020
Revenue from federal sources:						
Restricted grants-in-aid	65,497	18,071				83,568
Total revenues	1,698,218	384,905	375,470	28,456	217,142	2,704,191
Expenditures:						
Instruction:						
Regular programs:						
Elementary school	378,196	31,724		13,204		423,124
Middle school	65,886	10,268		2,755		78,909
High school	282,004	53,688		7,600		343,292
After school program	32,312	2,558				34,870
Alternative school	1,387					1,387
Special programs:						
Programs for special educ.			311,138			311,138
Educ. deprived (Title I)	57,837					57,837
Total instruction	817,622	98,238	311,138	23,559	0	1,250,557
Support services:						
Pupils:						
Guidance	49,318	360				49,678
Health	784					784
Special education			17,355			17,355
Instruction:						
Improvement of instruction	1,231					1,231
Educational media	6,090	691				6,781
Technology in school	16,627	1,915				18,542
General administration:						
Board of Education	18,322					18,322
Executive administration	129,311					129,311
School administration:						
Office of principal	147,642					147,642
Other	813					813
Business:						
Fiscal services	67,348					67,348
Facility acquisition		12,764				12,764
Operations and maintenance	182,967	46,507				229,474
Pupil transportation	80,007	5,406				85,413
Purchased food	6,794					6,794
Criminal background check	349					349
Special education			51,082			51,082
Total support services	707,603	67,643	68,437	0	0	843,683

(continued)

GAYVILLE-VOLIN SCHOOL DISTRICT No. 63-1
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS
 FOR THE YEAR ENDING JUNE 30, 2014 (continued)

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Debt Service Fund	Total Governmental Funds
Community services:						
Retirement				2,480		2,480
Debt service:						
Principal		50,000			200,000	250,000
Interest and fees		7,030			20,417	27,447
Bond issue cost		6,508				6,508
Total debt service	0	63,538	0	0	220,417	283,955
Cocurricular activities:						
Male activities	25,054					25,054
Female activities	27,770					27,770
Transportation	2,954					2,954
Combined activities	49,578	5,738				55,316
Total cocurricular services	105,356	5,738	0	0	0	111,094
Capital outlay:	913	579,433				580,346
Total expenditures	1,631,494	814,590	379,575	26,039	220,417	3,072,115
Excess of revenues over (under) expenditures	66,724	(429,685)	(4,105)	2,417	(3,275)	(367,924)
Other financing sources (uses):						
Transfer in	582					582
Transfer (out)		(569)		(13)		(582)
Sale of surplus property	300					300
Proceeds from 2013 capital outlay certificates (QZAB bonds)		350,000				350,000
Net change in fund balance	67,606	(80,254)	(4,105)	2,404	(3,275)	(17,624)
Fund balance:						
July 1, 2013	780,576	491,495	4,226	429	281,407	1,558,133
June 30, 2014	848,182	411,241	121	2,833	278,132	1,540,509

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

Net change in fund balances - total governmental funds (above) (17,624)

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

Add the cost of: Library books 913
 Cisco access point controllers 8,055
 Track complex 290,317
 Track perimeter fence 12,931
 Parking lot overlay 6,390
 Track storage shed 20,400
 Office addition 221,382
 Office furniture 19,958

Subtract depreciation taken on all capital assets (139,458)

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

Subtract prior year delinquent taxes (33,459)
 Add current year delinquent taxes 41,320

2013 capital outlay certificates (QZAB bonds) proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Therefore:

Subtract 2013 capital outlay certificate proceeds (350,000)
 Subtract increase in accrued leave (750)

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

Add current year principal payments on:
 2009 Limited Tax GO Certificates 50,000
 2011 General obligation refunding bond 200,000

Change in net position on government-wide statement of activities 330,375

See accompanying notes.

STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS
 FOR THE YEAR ENDING JUNE 30, 2013

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Debt Service Fund	Total Governmental Funds
Revenue:						
Revenue from local sources:						
Taxes:						
Ad valorem taxes	275,249	253,890	118,482	25,390	210,948	883,959
Mobile home taxes	4,227	2,801	1,307	276	2,334	10,945
Prior year ad valorem taxes	10,472	4,822	2,388	84	5,209	22,975
Gross receipts	77,907					77,907
Penalties and interest	4,303	1,538	834	21	1,850	8,546
Interest earned	9,004	476	13	11	225	9,729
Cocurricular activities:						
Admissions	10,110					10,110
Other revenue from local sources:						
Donations		121,616				121,616
Medicaid	19,824		7,718			27,542
Other	22,143	1,974				24,117
Total revenue from local source	433,239	387,117	130,742	25,782	220,566	1,197,446
Revenue from intermediate sources:						
County sources:						
County fines apportionment	21,744					21,744
Revenue from state sources:						
Unrestricted grants-in-aid	1,179,707					1,179,707
Restricted grants-in-aid	4,750		212,892			217,642
Revenue from federal sources:						
Restricted grants-in-aid	180,278	21,060				201,338
Total revenues	1,819,718	408,177	343,634	25,782	220,566	2,817,877
Expenditures:						
Instruction:						
Regular programs:						
Elementary school	491,059	22,903		11,130		525,092
Middle school	78,119	10,103		3,238		91,460
High school	340,328	28,648		9,000		377,976
After school program	19,437					19,437
Alternative school	1,244					1,244
Special programs:						
Programs for special educ.			317,813			317,813
Educ. deprived (Title I)	64,649					64,649
Total instruction	994,836	61,654	317,813	23,368	0	1,397,671
Support services:						
Pupils:						
Guidance	43,347					43,347
Health	728					728
Special education			7,536			7,536
Instruction:						
Improvement of instruction	7,435					7,435
Educational media	8,833	741				9,574
Technology in school	15,331	7,513				22,844
General administration:						
Board of Education	27,211	1,350				28,561
Executive administration	91,234					91,234
School administration:						
Office of principal	141,631	1,061				142,692
Other	783					783
Business:						
Fiscal services	64,583					64,583
Facility acquisition		2,185				2,185
Operations and maintenance	169,071	41,086				210,157
Pupil transportation	76,718	3,414				80,132
Purchased food	8,284					8,284
Criminal background check	147					147
Special education			19,595			19,595
Total support services	655,336	57,350	27,131	0	0	739,817

(continued)

GAYVILLE-VOLIN SCHOOL DISTRICT No. 63-1

STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS
 FOR THE YEAR ENDING JUNE 30, 2013 (continued)

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Debt Service Fund	Total Governmental Funds
Community services:						
Retirement				2,707		2,707
Debt service:						
Principal		65,000			190,000	255,000
Interest and fees		9,606			22,618	32,224
Total debt service	0	74,606	0	0	212,618	287,224
Cocurricular activities:						
Male activities	25,805					25,805
Female activities	23,048					23,048
Transportation	2,587					2,587
Combined activities	36,517	2,771				39,288
Total cocurricular services	87,957	2,771	0	0	0	90,728
Capital outlay:	2,486	79,185				81,671
Total expenditures	1,740,615	275,566	344,944	26,075	212,618	2,599,818
Excess of revenues over (under) expenditures	79,103	132,611	(1,310)	(293)	7,948	218,059
Other financing sources (uses):						
Transfer in	487					487
Transfer (out)		(476)		(11)		(487)
Sale of surplus property		240				240
Net change in fund balance	79,590	132,375	(1,310)	(304)	7,948	218,299
Fund balance:						
July 1, 2012	700,986	359,120	5,536	733	273,459	1,339,834
June 30, 2013	780,576	491,495	4,226	429	281,407	1,558,133

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

Net change in fund balances - total governmental funds (above) 218,299

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

Add the cost of:	Library books	2,486
	Wooden lockers	7,310
	2004 IC 59 passenger bus	30,000
	2004 IC 71 passenger bus	35,000
	Construction-in-progress	6,875

Subtract depreciation taken on all capital assets (131,850)

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

Subtract prior year delinquent taxes	(45,895)
Add current year delinquent taxes	33,458

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

Add current year principal payments on:	
2002 Capital outlay certificates	65,000
2011 General obligation refunding bond	190,000
Accrued leave	2,250

Change in net position on government-wide statement of activities 412,933

See accompanying notes.

GAYVILLE-VOLIN SCHOOL DISTRICT No. 63-1

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

	Food Service Fund	Child Care Fund	Total Enterprise Funds 6/30/14
Assets:			
Current assets:			
Cash and equivalents	34,137	4,880	39,017
Due from other governments		166	166
Accounts	447	1,514	1,961
Inventory - supplies	455		455
Inventory - purchased goods	732		732
Inventory - commodities (donated)	1,570		1,570
Long-term capital assets:			
Land		9,000	9,000
Buildings		97,195	97,195
Equipment	47,958		47,958
Accumulated depreciation	(30,336)	(13,607)	(43,943)
Total assets	54,963	99,148	154,111
Current liabilities:			
Accounts payable		750	750
Contracts payable		1,784	1,784
Payroll deductions payable		222	222
Prepaid meals	1,528		1,528
Total liabilities	1,528	2,756	4,284
Net position:			
Net invested in capital assets	17,622	92,588	110,210
Unrestricted	35,813	3,804	39,617
Total net position	53,435	96,392	149,827

See accompanying notes.

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

	Food Service Fund	Child Care Fund	Total Enterprise Funds 6/30/14	Food Service Fund	Child Care Fund	Total Enterprise Funds 6/30/13
Operating revenue:						
Sales to pupils	39,096		39,096	37,271		37,271
Sales to adults	4,715		4,715	5,569		5,569
Other sales	8,851	61,439	70,290	9,505	67,386	76,891
Total operating revenue	52,662	61,439	114,101	52,345	67,386	119,731
Operating expense:						
Salaries	44,976	53,146	98,122	44,361	56,059	100,420
Employee benefits	6,183	3,685	9,868	6,021	3,930	9,951
Purchased services	4,092	3,396	7,488	3,662	3,679	7,341
Supplies		5,833	5,833		6,001	6,001
Cost of sales:						
Purchased food	52,525		52,525	53,436		53,436
Donated food	9,156		9,156	8,193		8,193
Depreciation	3,009	1,944	4,953	3,150	1,944	5,094
Total operating expenses	119,941	68,004	187,945	118,823	71,613	190,436
Operating income (loss)	(67,279)	(6,565)	(73,844)	(66,478)	(4,227)	(70,705)
Nonoperating revenue (expense):						
Interest earned	37		37	16		16
State source:						
Cash reimbursement	607		607	1,096		1,096
Federal source:						
Cash reimbursement	52,919	3,978	56,897	58,562	5,339	63,901
Donated food	9,263		9,263	8,291		8,291
Total nonoperating revenue (expense)	62,826	3,978	66,804	67,965	5,339	73,304
Income (loss) before contributions:	(4,453)	(2,587)	(7,040)	1,487	1,112	2,599
Capital contributions: none			0			0
Change in net position	(4,453)	(2,587)	(7,040)	1,487	1,112	2,599
Net position:						
June 30, 2012				56,401	97,867	154,268
June 30, 2013	57,888	98,979	156,867	57,888	98,979	156,867
June 30, 2014	53,435	96,392	149,827			

See accompanying notes.

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

	Food Service Fund	Child Care Fund	Total Enterprise Funds 6/30/14	Food Service Fund	Child Care Fund	Total Enterprise Funds 6/30/13
Cash flows from:						
Operating activities:						
Receipts from customers	52,787	60,301	113,088	52,283	68,215	120,498
Cash paid for employees	(51,159)	(56,832)	(107,991)	(51,311)	(60,820)	(112,131)
Payments to suppliers	(56,655)	(9,091)	(65,746)	(60,791)	(9,840)	(70,631)
Net cash provided (used) by operating activities	(55,027)	(5,622)	(60,649)	(59,819)	(2,445)	(62,264)
Noncapital financing activities:						
Grant cash reimbursements, sta	607	347	954	1,096	642	1,738
Grant cash reimbursements, fed	52,919	3,978	56,897	58,562	5,339	63,901
Capital financing activities:						
Cash paid for equipment			0			0
Investing activities:						
Interest received	37		37	16		16
Net increase (decrease) in cash and cash equivalents	(1,464)	(1,297)	(2,761)	(145)	3,536	3,391
Cash and cash equivalents:						
June 30, 2012				35,746	2,641	38,387
June 30, 2013	35,601	6,177	41,778	35,601	6,177	41,778
June 30, 2014	34,137	4,880	39,017			
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	(67,279)	(6,565)	(73,844)	(66,478)	(4,227)	(70,705)
Donated commodities used	9,156		9,156	8,193		8,193
Depreciation	3,009	1,944	4,953	3,150	1,944	5,094
Change in operating accounts:						
Accounts receivable	(73)	(1,138)	(1,211)	(353)	829	476
Inventory - supplies	5		5	(10)		(10)
Inventory - purchased	149		149	9		9
Accounts payable	(192)	138	(54)	(3,692)	(160)	(3,852)
Contracts payable		13	13	(825)	(747)	(1,572)
Benefits payable		(14)	(14)	(104)	(84)	(188)
Prepaid meals	198		198	291		291
Net cash provided (used) by operating activities	(55,027)	(5,622)	(60,649)	(59,819)	(2,445)	(62,264)
Noncash investing, capital and financing activities:						
Donated commodities received	9,263			8,291		

See accompanying notes.

GAYVILLE-VOLIN SCHOOL DISTRICT No. 63-1

STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS
AS OF JUNE 30, 2014

Assets:	
Cash	26,188
Due from others	0

Total assets	26,188
	=====

Liabilities:	
Advance from general fund	6,000
Amounts held for others	20,188

Total liabilities	26,188
	=====

See accompanying notes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Reporting Entity:

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

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

Board Members:

Todd Bailey, Chairman
Kent Buckman
Charles Engen
Daniel Larson
Tamara Lee

Superintendent:

Jason Selchert

Business Manager:

Alice Hight

Attorney:

Churchill, Manolis, Freeman, Kludt

The reporting entity of the School District consists of (1) the primary government, which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity; (2) those organizations for which the primary government is financially accountable; and (3) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

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

Based upon the application of these criteria, the Gayville-Volin School District does not have any component units.

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

b. Basis of Presentation:

Government-wide Financial Statements:

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

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

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

Fund Financial Statements:

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

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

The School District has elected to classify all of its funds as major funds.

School District funds are described below within their respective fund type:

Governmental Funds

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

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

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

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

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

Debt Service Fund Types - debt service funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related cost.

Debt Service fund - A fund established by SDCL 13-16-13 to account for the payment of principal, interest and related costs of a 2001 general obligation refunding bond and the 2011 general obligation refunding bond. This fund is financed by property taxes and is a major fund. See page 35.

Enterprise Funds

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

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

Child care fund - a fund used to record financial transactions related to the School's child care activity and driver's education. This fund is financed by user charges, fund raising activities, and grants. This fund is a major fund.

Fiduciary Funds

Fiduciary are never considered to be major funds.

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

c. Measurement Focus and Basis of Accounting:

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

Measurement Focus

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

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

Basis of Accounting

Government-wide Financial Statements:

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

Fund Financial Statements:

In the fund financial statements, all governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The School District's availability period accruing and recording revenues is 60 days. The revenues which are accrued at June 30, 2014 are grants and other accounts receivable.

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

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

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

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

e. Interfund Transactions:

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

f. Cash and Cash Equivalents:

In the enterprise funds' statement of cash flows, the School District considers all highly liquid investments and deposits (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents.

g. Capital Assets and Infrastructure assets:

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

Government-wide Financial Statements:

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

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

The total June 30, 2014 balance of capital assets for governmental activities include approximately 2% for which the costs were determined by estimates of the original costs. The total June 30, 2014 balance of capital assets for business-type activities includes approximately 0% for which the costs were determined by estimates of the original costs. The estimated original costs were established by appraisals.

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

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide statement of activities and the enterprise fund statement of revenue, expenses and changes in fund net position. Accumulated depreciation is reported on the government-wide statement of net position and on the enterprise fund's statement of net position. See also page 35.

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

	Capitalization Threshold	Depreciation Method	Estimated Life in Years
	-----	-----	-----
Land	all	N/A	N/A
Buildings/structures	20,000	Straight-line	50
Improvements	10,000	Straight-line	10-50
Equipment	5,000	Straight-line	2-20
Equipment - food service	500	Straight-line	12

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

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

h. Long-term Liabilities:

Government-wide Financial Statements:

In the government-wide financial statement, all long-term liabilities to be repaid from governmental or business-type resources are reported as liabilities. Long-term liabilities consist of a general obligation bond, capital outlay refunding certificates, capitalized leases, and compensated absences.

Fund Financial Statements:

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

i. Program Revenues and General Revenues:

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

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

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

j. Deferred Inflows and Deferred Outflows of Resources

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

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

k. Enterprise Fund Revenue and Expense Classifications:

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

l. Equity Classifications:

Government-wide Statements:

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

1. Net invested in Capital Assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable)

and reduced by the outstanding balances of any capital outlay certificate payable, capitalized leases payable, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

2. Restricted Net Position - Consists of net position with constraints placed on their use either by (a) external groups such as creditor, grantor, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position - Other net position that does not meet the criteria of 1 or 2 above.

Fund Financial Statements:

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

m. Fund Balance Classification Policies and Procedures:

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

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

The School District fund balance classifications are made up of:

<u>Fund Balance</u> <u>Classifications</u>	<u>Account</u> <u>or Fund</u>	<u>Authority</u> <u>or Action</u>	<u>Amount</u>
Nonspendable	Inventory of supplies		2,000
Restricted	Capital Outlay	Statute	411,241
	Special Education	Statute	121
	Pension	Statute	2,833
	Debt Service	Statute	278,132
Committed	None		0
Assigned	General - Budget	Resolution	48,888
Unassigned	General		797,294

			1,540,509

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

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

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

Special Revenue Fund:	Revenue Source: (see pages 14 and 16)
* Capital Outlay	Property taxes
* Special Education	Property taxes and grants
* Pension	property taxes

n. Application of Net Position:

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

o. Allowance for Doubtful Accounts:

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

p. Accounting Estimates:

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

- * Allowance for doubtful accounts - estimated uncollectables
- * Inventory - estimated fair market value
- * Depreciation - estimated service lives
- * Food service accounts payable - estimated student meal refunds

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

Contrary to SDCL 13-20-2.1 in September 2012 the School District did contract with one of its employees to install wood storage shelving and lockers for \$7,113.

3. DEPOSITS, INVESTMENTS AND RISK

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

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

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

Actual bank balances at June 30, 2014 were as follows: Insured \$500,000, Collateralized ** \$1,356,884, for a total of \$1,856,884.

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

The carrying amount of these deposits at June 30, 2014 was \$1,748,386, which equals \$1,722,198 on the government-wide statement of net position plus \$26,299 on the fiduciary funds statement.

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

Cash Equivalents - Certificates of deposit, with a term to maturity of greater than 3 months when purchased, were insured or collateralized and are considered deposits. Also, because certificates of deposit are included in the equivalent of an internal cash management pool, which is available on demand to all School District funds, certificates of deposit (if any) are considered to be cash equivalent.

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

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

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

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

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the general fund or the fund making the investment. The School District's policy is to credit all income from deposits and investments to the general fund, except for interest from certificates of deposit in the capital outlay fund and for interest earned by the bond redemption fund. U.S.GAAP, however, requires income from deposits and investments to be reported in the fund whose assets generated the income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund (ie: general fund) is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities. These transfers are not violations of the statutory restrictions on interfund transfers.

4. RECEIVABLES AND PAYABLES

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

5. DUE FROM OTHER GOVERNMENTS

At June 30, 2014 amounts due from other governments were:

	Governmental Activities	Business-Type Activities
Federal government:		
Title I grant	9,029	
State government:		
Gross receipts tax	41,511	
Food reimbursements		166
	-----	-----
	50,540	166

6. INVENTORY OF SUPPLIES AND SMALL TOOLS

Government-wide Statements: (consumption method)

In the government-wide financial statements inventory of supplies and small tools are recorded as assets when purchased and charged to expense when they are consumed. Inventory of supplies and small tools are recorded at cost. Donated items are valued at estimated market value at the date of receipt. The cost valuation method is first-in first-out. Inventory at June 30, 2014 is \$2,000 for supplies in the general fund and \$2,757 for food in the food service fund.

Fund Financial Statements: (consumption method)

In the fund financial statements inventory of supplies and small tools (if any) are recorded as assets when purchased and charged to expenditure/expense when they are consumed. Reported governmental inventories are equally offset by a nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Inventory of supplies and small tools are recorded at cost. Donated items are valued at estimated market value at the date of receipt. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt. The cost valuation method is first-in first-out.

7. CHANGES IN CAPITAL ASSETS (see schedule one)

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

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

8. CHANGES IN LONG-DEBT (see schedule two)

A summary of changes in long-term debt for the two fiscal years ending June 30, 2014 is found on schedule two at the end of these footnotes.

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

9. OPERATING LEASE

In May 2012 the School District entered into a 63 month agreement with A&B Business Equipment, Inc. to use their copy machines and printers for \$2,184 a month. Payments are made from the capital outlay fund. The equipment is expected to have zero value at the end of 63 months. Total minimum future operating lease payments are \$26,208 in FY13 through FY17 and \$2,184 in FY18.

10. RESTRICTED NET POSITION

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

Fund	Restricted by	Amount
Capital outlay	Law	\$ 422,202
Special education	Law	5,345
Pension	Law	3,467
Debt service	Covenants	288,342

Total restricted net position		\$ 719,356

11. INTERFUND TRANSFERS

During the year ending June 30, 2014 interest earnings of \$569 were transferred from the capital outlay fund to the general fund and \$13 from the pension fund to the general fund.

During the year ending June 30, 2013 interest earnings of \$476 were transferred from the capital outlay fund to the general fund and \$11 from the pension fund to the general fund.

12. REFUNDING OF THE 2001 GENERAL OBLIGATION REFUNDING BONDS

On April 19, 2011, the School District issued \$1,230,000 in general obligation refunding bonds, series 2011, with an average interest rate of 2.1459% to refund general obligation bonds dated April 1, 2001 with an average remaining interest rate of 4.15% and unpaid principal of \$1,205,000 at April 19, 2011.

The entire net proceeds of the refunding issue was used to pay-off the series 2001 issue, which was callable on or after July 15, 2011.

The School District refunded this debt to reduce total debt service over the next 6 years by \$104,284 and to obtain an economic gain of \$97,168.

13. RETIREMENT PLAN

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

Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The School District's share of contributions to the SDRS for the years ending June 30, 2014, 2013, and 2012 were \$74,641, \$79,859, and \$75,472 (employer's share) respectively, equal to the required contribution each year.

14. EMPLOYEE BENEFIT PLAN

The School District offers eligible employees a "Flexible Benefits Plan" (also known as a "cafeteria plan") under Internal Revenue Code Sec.125. The Plan allows eligible employees to use money provided by the School District through employee salary redirection, to choose (and pay for) one or more benefits offered through the Plan.

15. PROPERTY TAXES

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

School District property tax revenue are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable, which is not intended to be used to finance the current year's appropriations, and therefore not susceptible to accrual, has been reported as deferred revenue in both the government-wide financial statements and the fund financial statements.

Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period". However, because property taxes are payable on April 30 and October 31 each year, about 1/2 of the property tax levy is collected by June 30, to finance the current year's appropriations, and 1/2 is collected after June 30, to finance the next year's appropriations.

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

Delinquent property taxes, from prior year tax levies, are included in "net position" in the government-wide statement of activities but are deferred in the fund financial statements. See reconciliations on page 13, 15, and 17.

16. JOINT VENTURE -- SOUTHEAST AREA EDUCATIONAL COOPERATIVE

The School District participates in Southeast Area Educational Cooperative, a cooperative service unit (co-op) formed for the purpose of providing pupil support services to member school districts. At June 30, 2014 the School District's percentage of participation in the co-op is 7.30% based on pupil counts.

The co-op's governing board is composed of one representatives from each member school district, who is a school board member. 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 in the net position of the co-op, but does have a responsibility to fund deficits of the co-op in proportion to the relative participation described above.

Separate financial statements of the co-op are available at its business office in Beresford, South Dakota.

At June 30, 2014, this joint venture had a total audited fund equity of \$244,935 and no long-term liabilities.

17. RISK MANAGEMENT

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

Health:

The District purchases health insurance for its employees from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability and Property:

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

Worker's Compensation:

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

Unemployment Benefits:

The School District provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota. The School District did not make any unemployment payments in FY13 or FY14. The School District is expected to make approximately \$9,000 of unemployment payments in FY15.

18. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

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

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

In September 2014 a site visit was completed for a grant for a sidewalk project which will cost up to \$87,000. If the grant is approved the school will be responsible for approximately 18% of the cost.

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

	Beginning 6-30-13	Book Adjustments	Additions	Deletions	Ending 6-30-14	Accumulated Depreciation 6-30-13	Book Adjustments	Depreciation Additions	Depreciation Deletions	Accumulated Depreciation 6-30-14	Remaining Cost 6-30-14
Governmental capital assets:											
Land	48,118				48,118	0				0	48,118
Buildings	4,340,238	(1)	241,782		4,582,019	(1,394,897)		(91,232)		(1,486,129)	3,095,890
Improvements	157,523		316,513		474,036	(17,804)	(1)	(4,436)		(22,241)	451,795
Equipment	454,412	1	28,012		482,425	(216,139)		(39,255)		(255,394)	227,031
Library books	44,426		913		45,339	(32,788)		(4,534)		(37,322)	8,017
Construction-in-progress	6,875			(6,875)	0					0	0
Totals	5,051,592	0	587,220	(6,875)	5,631,937	(1,661,628)	(1)	(139,457)	0	(1,801,086)	3,830,851

Construction-in-progress:											
Building addition								111,557			
								10,047			
								17,853			
								<u>139,457</u>			
Enterprise funds:											
Land - child care	9,000				9,000					0	9,000
Buildings - child care	97,196	(1)			97,195	(11,664)		(1,944)		(13,608)	83,587
Equipment - food service	47,957	1			47,958	(27,326)		(3,009)		(30,335)	17,623
Totals	154,153	0	0	0	154,153	(38,990)	0	(4,953)	0	(43,943)	110,210

Governmental depreciation is allocated as follows:

Instruction	111,557
Support	10,047
Co-curricular	17,853
	<u>139,457</u>

	Beginning 6-30-12	Book Adjustments	Additions	Deletions	Ending 6-30-13	Accumulated Depreciation 6-30-12	Book Adjustments	Depreciation Additions	Depreciation Deletions	Accumulated Depreciation 6-30-13	Remaining Cost 6-30-13
Governmental capital assets:											
Land	48,118				48,118					0	48,118
Buildings	4,340,238				4,340,238	(1,308,092)		(86,805)		(1,394,897)	2,945,341
Improvements	157,522		1		157,523	(14,654)		(3,150)		(17,804)	139,719
Equipment	382,103		72,309		454,412	(178,687)		(37,452)		(216,139)	238,273
Library books	41,940		2,486		44,426	(28,345)		(4,443)		(32,788)	11,638
Construction-in-progress	0		6,875		6,875					0	6,875
Totals	4,969,921	0	81,671	0	5,051,592	(1,529,778)	0	(131,850)	0	(1,661,628)	3,389,964

Governmental depreciation is allocated as follows:

Instruction	109,623
Support	4,924
Co-curricular	17,303
	<u>131,850</u>

Enterprise funds:											
Land - child care	9,000				9,000					0	9,000
Buildings - child care	97,196				97,196	(9,720)		(1,944)		(11,664)	85,532
Equipment - food service	47,957				47,957	(24,176)		(3,150)		(27,326)	20,631
Totals	154,153	0	0	0	154,153	(33,896)	0	(5,094)	0	(38,990)	115,163

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE TWO
 CHANGES IN LONG-TERM DEBT
 FOR THE TWO YEARS ENDING JUNE 30, 2014

	Beginning 6-30-12	FY13 Additions (Deletions)	FY14 Additions (Deletions)	Governmental Ending 6-30-14	Principal Due in FY15
GOVERNMENTAL					
2002 Capital Outlay Certificates:					
Original amount:	\$530,000				
Maturing July 15, 2012					
Remaining interest from 4.65% to 4.85%					
Callable on or after July 15, 2007					
Semi-annual payments					
Paid from Capital Outlay Fund	65,000	(65,000)		0	0
2009 Limited Tax General Obligation Certificates:					
Original amount:	\$215,000				
Maturing July 15, 2016					
Remaining interest from 3.20% to 3.70%					
Callable on or after October 29, 2014					
Semi-annual payments					
Paid from Capital Outlay Fund	215,000	0	(50,000)	165,000	55,000
2011 General Obligation Refunding Bonds:					
Original amount:	\$1,230,000				
Maturing July 15, 2017					
Interest from 1.00% to 2.70%					
Callable on or after April 19, 2016					
Semi-annual payments					
Paid from Debt Service Fund	1,230,000	(190,000)	(200,000)	840,000	205,000
2013 Capital Outlay Certificates:					
Qualified Zone Academy Bonds					
Original amount:	\$350,000				
Maturing July 15, 2025					
Interest at zero					
Annual payments of \$29,166.67					
Paid from Capital Outlay Fund	0		350,000	350,000	29,167
Accrued leave liability:					
Paid from General Fund	6,000	(2,250)	750	4,500	4,500
	<u>1,516,000</u>	<u>(257,250)</u>	<u>100,750</u>	<u>1,359,500</u>	<u>293,667</u>

SCHEDULE OF PAYMENTS FOR LONG-TERM DEBT
 AT JUNE 30, 2014

	Total Payment	Principal	Interest	Balance
2009 Limited Tax General Obligation Certificates:				
FY15	59,950	55,000	4,950	110,000
FY16	58,052	55,000	3,052	55,000
FY17	56,017	55,000	1,017	0
Totals	<u>174,019</u>	<u>165,000</u>	<u>9,019</u>	
2011 General Obligation Refunding Bonds:				
FY15	221,976	205,000	16,976	635,000
FY16	218,132	205,000	13,132	430,000
FY17	218,460	210,000	8,460	220,000
FY18	222,970	220,000	2,970	0
Totals	<u>881,538</u>	<u>840,000</u>	<u>41,538</u>	
2013 Capital Outlay Certificates:				
Qualified Zone Academy Bonds				
FY15	29,167	29,167	0	320,833
FY16	29,167	29,167	0	291,666
FY17	29,167	29,167	0	262,499
FY18	29,166	29,166	0	233,333
FY19	29,167	29,167	0	204,166
FY20-FY24	145,833	145,833	0	58,333
FY25-FY26	58,333	58,333	0	0
Totals	<u>350,000</u>	<u>350,000</u>	<u>0</u>	

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

GENERAL FUND	Budgeted Amounts			Actual	Variance Positive (Negative)	
	Original	Contingency Transfers	Supplementals			Final
Revenues:						
Local Sources:						
Taxes:						
Ad valorem taxes	296,389			296,389	297,856	1,467
Prior year ad valorem tax:	5,000			5,000	5,253	253
Gross receipts	45,000			45,000	52,165	7,165
Other taxes	4,000			4,000	2,608	(1,392)
Penalties and interest	2,000			2,000	1,958	(42)
Interest earned	7,000			7,000	10,731	3,731
Cocurricular activities:						
Admissions	11,000			11,000	14,825	3,825
Other revenue from local sources:						
Donations				0	100	100
Medicaid	16,000			16,000	22,873	6,873
Other	12,500			12,500	13,928	1,428
Intermediate sources:						
County fines apportionment	21,000			21,000	25,738	4,738
State sources:						
Unrestricted grants-in-aid	1,185,717			1,185,717	1,184,686	(1,031)
Restricted grants-in-aid	12,800			12,800		(12,800)
Federal sources:						
Restricted grants-in-aid	58,736			58,736	65,497	6,761
Total revenues	1,677,142	0	0	1,677,142	1,698,218	21,076
Expenditures:						
Instruction:						
Regular programs:						
Elementary school	385,324			385,324	378,196	7,128
Middle school	70,390			70,390	65,886	4,504
High school	284,920			284,920	282,004	2,916
Early childhood services	32,594			32,594	32,312	282
Alternative school	1,000			1,000	1,387	(387)
Special programs:						
Educ. deprived (Title I)	59,496			59,496	57,837	1,659
Support services:						
Pupils:						
Guidance	50,003			50,003	49,318	685
Health	800			800	784	16
Instruction:						
Improvement of instruction	9,135			9,135	1,231	7,904
Educational media	6,824			6,824	7,003	(179)
Technology in school	15,978		400	16,378	16,627	(249)
General administration:						
Board of Education	19,280			19,280	18,322	958
Executive administration	128,157		2,500	130,657	129,311	1,346
School administration:						
Office of principal	146,517			146,517	147,642	(1,125)
Other	3,256			3,256	813	2,443
Business:						
Fiscal services	67,402			67,402	67,348	54
Operations and maintenance	189,260		5,000	194,260	182,967	11,293
Pupil transportation	81,610		2,000	83,610	80,007	3,603
Purchased food	6,800			6,800	6,794	6
Central: recruiting	300			300	349	(49)
Cocurricular activities:						
Male activities	27,978			27,978	25,054	2,924
Female activities	26,392		1,700	28,092	27,770	322
Transportation			1,700	1,700	2,954	(1,254)
Combined activities	54,173		200	54,373	49,578	4,795
Total expenditures	1,667,589	0	13,500	1,681,089	1,631,494	49,595
Excess of rev over (under) exp	9,553	0	(13,500)	(3,947)	66,724	70,671
Other financial sources:						
Transfer in				0	582	582
Transfer (out)	(968)			(968)		968
Sale of surplus property				0	300	300
Fund balance:						
July 1, 2013	780,576			780,576	780,576	0
June 30, 2014	789,161	0	(13,500)	775,661	848,182	72,521

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

GENERAL FUND	Budgeted Amounts			Actual	Variance Positive (Negative)	
	Original	Contingency Transfers	Supplementals			Final
Revenues:						
Local Sources:						
Taxes:						
Ad valorem taxes	282,308			282,308	275,249	(7,059)
Prior year ad valorem taxes	4,000			4,000	10,472	6,472
Gross receipts	45,000			45,000	77,907	32,907
Other taxes	4,000			4,000	4,227	227
Penalties and interest	2,000			2,000	4,303	2,303
Tuition	2,000			2,000		(2,000)
Interest earned	9,000			9,000	9,004	4
Cocurricular activities:						
Admissions	13,000			13,000	10,110	(2,890)
Other revenue from local sources:						
Medicaid	14,000			14,000	19,824	5,824
Other	12,500			12,500	22,143	9,643
Intermediate sources:						
County fines apportionment	21,000			21,000	21,744	744
State sources:						
Unrestricted grants-in-aid	1,143,509			1,143,509	1,179,707	36,198
Restricted grants-in-aid	6,250			6,250	4,750	(1,500)
Federal sources:						
Restricted grants-in-aid	186,492			186,492	180,278	(6,214)
Total revenues	1,745,059	0	0	1,745,059	1,819,718	74,659
Expenditures:						
Instruction:						
Regular programs:						
Elementary school	348,654		34,600	383,254	491,059	(107,805)
Middle school	122,039			122,039	78,119	43,920
High school	353,716			353,716	340,328	13,388
After school program	108,050			108,050		108,050
Early childhood services	19,162			19,162	19,437	(275)
Alternative school	3,500			3,500	1,244	2,256
Special programs:						
Educ. deprived (Title I)	67,347			67,347	64,649	2,698
Support services:						
Pupils:						
Guidance	49,392			49,392	43,347	6,045
Health	950			950	728	222
Instruction:						
Improvement of instruction	8,950			8,950	7,435	1,515
Educational media	11,703			11,703	11,319	384
Technology in school	14,005		2,200	16,205	15,331	874
General administration:						
Board of Education	28,531		650	29,181	27,211	1,970
Executive administration	91,989			91,989	91,234	755
School administration:						
Office of principal	142,977			142,977	141,631	1,346
Other	3,273			3,273	783	2,490
Business:						
Fiscal services	64,539		350	64,889	64,583	306
Operations and maintenance	195,499		500	195,999	169,071	26,928
Pupil transportation	86,650			86,650	76,718	9,932
Purchased food	8,200			8,200	8,284	(84)
Central: recruiting	360			360	147	213
Cocurricular activities:						
Male activities	29,406			29,406	25,805	3,601
Female activities	27,384			27,384	23,048	4,336
Transportation				0	2,587	(2,587)
Combined activities	42,579		1,800	44,379	36,517	7,862
Total expenditures	1,828,855	0	40,100	1,868,955	1,740,615	128,340
Excess of rev over (under) exp	(83,796)	0	(40,100)	(123,896)	79,103	202,999
Other financial sources:						
Transfer in				0	487	487
Transfer (out)	(625)			(625)		625
Fund balance:						
July 1, 2012	700,986			700,986	700,986	0
June 30, 2013	616,565	0	(40,100)	576,465	780,576	204,111

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

CAPITAL OUTLAY FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplementals	Final		
Revenue:					
Local Sources:					
Taxes:					
Ad valorem taxes	278,208		278,208	280,780	2,572
Prior year ad valorem taxes:	3,000		3,000	3,555	555
Other taxes	2,000		2,000	1,668	(332)
Penalties and interest	750		750	959	209
Interest earned	300		300	569	269
Other revenue from local sources:					
Donations	50,000		50,000	66,916	16,916
Other revenue from state sources:					
Restricted grants-in-aid	12,387		12,387	12,387	0
Other revenue from federal sources:					
Restricted grants-in-aid	18,000		18,000	18,071	71
Total revenue	364,645	0	364,645	384,905	20,260
Expenditures:					
Instruction:					
Regular programs:					
Elementary school	27,500		27,500	31,724	(4,224)
Middle school	4,500		4,500	10,268	(5,768)
High school	42,920		42,920	53,688	(10,768)
Early childhood services	2,050	900	2,950	2,558	392
Support services:					
Pupils:					
Guidance		400	400	360	40
Instruction:					
Educational media	750		750	691	59
Technology in school	23,100		23,100	9,970	13,130
General education:					
Executive administration	500		500		500
School administration:					
Office of Principals	1,000		1,000		1,000
Business:					
Facilities acquisition	588,500	25,000	613,500	577,751	35,749
Operations and maintenance	53,150		53,150	52,898	252
Pupil transportation	5,000		5,000	5,406	(406)
Debt service:	93,540		93,540	63,538	30,002
Cocurricular activities:					
Male activities	1,500		1,500		1,500
Combined activities	32,000		32,000	5,738	26,262
Total expenditures	876,010	26,300	902,310	814,590	87,720
Excess of rev over (under) exp	(511,365)	(26,300)	(537,665)	(429,685)	107,980
Other financial sources:					
Transfer (out)			0	(569)	(569)
Proceeds from 2013 capital outlay certificates	350,000		350,000	350,000	0
Fund balance:					
July 1, 2013	491,495		491,495	491,495	0
June 30, 2014	330,130	(26,300)	303,830	411,241	107,411

GAYVILLE-VOLIN SCHOOL DISTRICT No. 63-1

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

CAPITAL OUTLAY FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplementals	Final		
Revenue:					
Local Sources:					
Taxes:					
Ad valorem taxes	260,203		260,203	253,890	(6,313)
Prior year ad valorem taxes:	1,500		1,500	4,822	3,322
Other taxes	2,000		2,000	2,801	801
Penalties and interest	500		500	1,538	1,038
Interest earned	750		750	476	(274)
Other revenue from local sources:					
Donations		87,880	87,880	121,616	33,736
Other			0	1,974	1,974
Other revenue from federal sources:					
Restricted grants-in-aid	21,000		21,000	21,060	60
Total revenue	285,953	87,880	373,833	408,177	34,344
Expenditures:					
Instruction:					
Regular programs:					
Elementary school	27,375		27,375	22,903	4,472
Middle school	17,625		17,625	10,103	7,522
High school	43,500		43,500	28,648	14,852
Support services:					
Instruction:					
Educational media	750		750	741	9
Technology in school	3,000	5,000	8,000	7,513	487
General education:					
Executive administration		1,350	1,350	1,350	0
School administration:					
Office of Principals	2,500		2,500	1,061	1,439
Business:					
Fiscal services			0		0
Facilities acquisition	20,000	175,000	195,000	16,370	178,630
Operations and maintenance	57,000	400	57,400	41,086	16,314
Pupil transportation	70,000		70,000	68,414	1,586
Debt service:	74,610		74,610	74,606	4
Cocurricular activities:					
Combined activities	5,000		5,000	2,771	2,229
Total expenditures	321,360	181,750	503,110	275,566	227,544
Excess of rev over (under) exp	(35,407)	(93,870)	(129,277)	132,611	261,888
Other financial sources:					
Transfer (out)			0	(476)	(476)
Sale of surplus property			0	240	240
Fund balance:					
July 1, 2012	359,120		359,120	359,120	0
June 30, 2013	323,713	(93,870)	229,843	491,495	261,652

GAYVILLE-VOLIN SCHOOL DISTRICT No. 63-1

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

SPECIAL EDUCATION FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplementals	Final		
Revenues:					
Local Sources:					
Taxes:					
Ad valorem taxes	139,545		139,545	140,472	927
Prior year ad valorem taxes:	750		750	1,664	914
Other taxes	1,000		1,000	831	(169)
Penalties and interest	300		300	452	152
Interest earned			0		0
Medicaid	6,000		6,000	7,418	1,418
State sources:					
Restricted grants-in-aid	242,853		242,853	224,633	(18,220)
Total revenues	390,448	0	390,448	375,470	(14,978)
Expenditures:					
Instruction:					
Special programs:					
Special education	355,518		355,518	311,138	44,380
Support services:					
Pupils:					
Special education	16,910		16,910	17,355	(445)
Special education services:	18,020		18,020	51,082	(33,062)
Total expenditures	390,448	0	390,448	379,575	10,873
Excess of rev over (under) exp	0	0	0	(4,105)	(4,105)
Other financing sources:					
None			0		0
Fund balance:					
July 1, 2013	4,226		4,226	4,226	0
June 30, 2014	4,226	0	4,226	121	(4,105)

GAYVILLE-VOLIN SCHOOL DISTRICT No. 63-1

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

SPECIAL EDUCATION FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplementals	Final		
Revenues:					
Local Sources:					
Taxes:					
Ad valorem taxes	121,428		121,428	118,482	(2,946)
Prior year ad valorem taxes:	750		750	2,388	1,638
Other taxes	1,250		1,250	1,307	57
Penalties and interest	350		350	834	484
Interest earned			0	13	13
Medicaid	5,000		5,000	7,718	2,718
State sources:					
Restricted grants-in-aid	245,544		245,544	212,892	(32,652)
Total revenues	374,322	0	374,322	343,634	(30,688)
Expenditures:					
Instruction:					
Special programs:					
Special education	327,418	2,500	329,918	317,813	12,105
Support services:					
Pupils:					
Special education	10,900		10,900	7,536	3,364
Special education services:	36,004		36,004	19,595	16,409
Total expenditures	374,322	2,500	376,822	344,944	31,878
Excess of rev over (under) exp	0	(2,500)	(2,500)	(1,310)	1,190
Other financing sources:					
None			0		0
Fund balance:					
July 1, 2012	5,536		5,536	5,536	0
June 30, 2013	5,536	(2,500)	3,036	4,226	1,190

GAYVILLE-VOLIN SCHOOL DISTRICT No. 63-1

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

PENSION FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplementals	Final		
Revenues:					
Local Sources:					
Taxes:					
Ad valorem taxes	27,816		27,816	28,057	241
Prior year ad valorem taxes:	100		100	172	72
Other taxes	200		200	167	(33)
Penalties and interest	50		50	47	(3)
Interest earned			0	13	13
Total revenues	28,166	0	28,166	28,456	290
Expenditures:					
Instruction:					
Regular programs:					
Elementary school	12,416		12,416	13,204	(788)
Middle school	2,872		2,872	2,755	117
High school	7,600		7,600	7,600	0
Community services:					
Retirement	3,150		3,150	2,480	670
Total expenditures	26,038	0	26,038	26,039	(1)
Excess of rev over (under) exp	2,128	0	2,128	2,417	289
Other financial sources:					
Transfer out	0		0	(13)	(13)
Fund balance:					
July 1, 2013	429		429	429	0
June 30, 2014	2,557	0	2,557	2,833	276

GAYVILLE-VOLIN SCHOOL DISTRICT No. 63-1

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

PENSION FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplementals	Final		
Revenues:					
Local Sources:					
Taxes:					
Ad valorem taxes	26,020		26,020	25,390	(630)
Prior year ad valorem taxes			0	84	84
Other taxes			0	276	276
Penalties and interest			0	21	21
Interest earned			0	11	11
Total revenues	26,020	0	26,020	25,782	(238)
Expenditures:					
Instruction:					
Regular programs:					
Elementary school	9,000	1,075	10,075	11,130	(1,055)
Middle school	3,865		3,865	3,238	627
High school	9,000		9,000	9,000	0
Community services:					
Retirement	3,135		3,135	2,707	428
Total expenditures	25,000	1,075	26,075	26,075	0
Excess of rev over (under) exp	1,020	(1,075)	(55)	(293)	(238)
Other financial sources:					
Transfer out	0		0	(11)	(11)
Fund balance:					
July 1, 2012	733		733	733	0
June 30, 2013	1,753	(1,075)	678	429	(249)

NOTES TO BUDGETARY COMPARISON SCHEDULES
JUNE 30, 2014

1. Budgets and Budgetary Accounting:

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

- a. Prior to the first regular board meeting in May of each year the school board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
- b. The proposed budget is considered by the school board at the first regular meeting held in May of each year.
- c. The proposed budget is published for public review no later than July 15 of each year.
- d. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
- e. Before October 1 of each year, the school board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
- f. After adoption by the school board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 1h below.
- g. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
- h. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets, when money is available, to increase legal spending authority. See page 37 to 44.
- i. Unexpended appropriations lapse at year end unless encumbered by resolution of the school board. No encumbrances were outstanding at June 30, 2014.
- j. Formal budgetary integration is employed as a management control device during the year for the general fund and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
- k. Budgets for the general fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

2. GAAP and Budgetary Accounting Basis Difference:

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

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

Governing Board
Gayville-Volin School District No. 63-1
Gayville, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Gayville-Volin School District (School District), Gayville, South Dakota, as of June 30, 2014 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued my report thereon dated February 13, 2015 which was unmodified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Gayville-Volin School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion.

The results of my tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of current audit findings and responses as item 2014-01.

I did note minor matters involving compliance that I reported to the governing body and management of the Gayville-Volin School District in a separate Letter of Comments dated February 13, 2015.

Internal Control Over Financial Reporting

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

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

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

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

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

I did identify deficiencies in internal control, described in the accompanying schedule of current audit findings and responses that I consider to be significant deficiencies. I consider the deficiencies described in the accompanying schedule of current audit findings and responses as items 2014-01 and 2014-02 to be a significant deficiencies.

The Gayville-Volin School District's responses to the findings identified in my audit are described in the accompanying schedule of current audit findings and responses. The School District's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on the responses.

I did note minor matters involving internal control that I reported to the governing body and management of the Gayville-Volin School District in a separate Letter of Comments dated February 13, 2015.

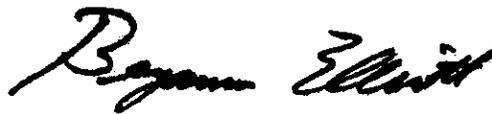
Purpose of this Report

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

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

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

February 13, 2015



SCHEDULE OF PRIOR AUDIT FINDINGS AND RESPONSES

Prior Audit Findings:

Segregation of Duties - Repeated below as 2014-01

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Finding 2014-01: No Public Hearing Prior to Use of Capital Outlay Funds
(compliance and internal control)

Criteria:

When the capital outlay fund is used for payment on construction of a new facility or the addition to facilities and the cost requires advertising for bids, SDCL 13-16-9.3 requires the school district to have a public hearing at least 10 days prior to the advertisement of any contract specifications and that the public hearing be advertised in the legal newspaper.

Condition:

The school district did not have public hearing prior to the advertisement for bids for a building addition or for track improvements.

Effect:

The absence of public hearing can lead to the misappropriation of funds.

Recommendation:

When using capital outlay funds, I recommend the school district have a public hearing at least 10 days prior to the advertisement for bids and that the public hearing be advertised in the school district's legal newspaper.

Management Response:

Management agrees with this recommendation.

Finding 2014-02: Lack of Proper Segregation of Duties
(internal control)

Criteria:

The management of a school district is responsible for establishing and maintaining an internal control structure to provide management and taxpayers with reasonable assurance: 1) that assets are safeguarded against loss from unauthorized use or disposition, 2) that transactions are executed in accordance with management's authorization, and 3) that transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

A key element of an effective internal control structure is the separation of duties so one person isn't responsible of all aspects of a transaction.

Condition:

The business manager processes most transactions from beginning to end. The business manager receives money, posts receipts to the accounting records, prepares bank deposits, generates and signs checks, makes journal entries, and posts transactions to the general ledger. As a result, an inadequate segregation of duties exists for the Gayville-Volin School District.

Effect:

Inadequate segregation of duties can lead to misappropriation of funds.

GAYVILLE-VOLIN SCHOOL DISTRICT No. 63-1
JUNE 30, 2014
SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES (continued)

Recommendation:

I recommend the Gayville-Volin School District's management be cognizant of this lack of segregation of duties and attempt to provide compensating internal controls whenever and wherever possible and practical.

Management Response:

This comment is a result of the size of our school district, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The Gayville-Volin School District has determined that it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties. The Gayville-Volin School District is aware of this problem and is attempting to provide compensating controls whenever and wherever possible and practical. However, this lack of segregation of duties is expected to continue.