



Financial Statements
June 30, 2014 and 2013

Langford Area School District 45-5

Langford Area School District 45-5
School Board Members
June 30, 2014 and 2013

Board President David Planteen

Governing Board Michael Frey
Jennifer Gustafson
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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The School Board
Langford Area School District 45-5
Langford, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Langford Area School District 45-5 (the School District) as of June 30, 2014 and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Correction of Errors

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

Adoption of New Accounting Standard

As described in Note 15 to the financial statements, the School District adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As discussed in Note 15 to the financial statements, the School District has retroactively restated the previously reported net position to account for bond issuance costs in accordance with this Statement. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of funding progress and budgetary comparison schedules on pages 41-52 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with managements responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2014 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Eide Bailly LLP

Aberdeen, South Dakota
December 12, 2014

Langford Area School District 45-5
Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,042,631	\$ 54,205	\$ 2,096,836
Taxes receivable	719,616	-	719,616
Internal balances	6,390	(6,390)	-
Other assets	107,155	5,498	112,653
Inventories	-	6,046	6,046
Capital assets:			
Land, improvements and construction in progress	9,003	-	9,003
Other capital assets, net of depreciation	1,868,941	-	1,868,941
	<u>\$ 4,753,736</u>	<u>\$ 59,359</u>	<u>\$ 4,813,095</u>
Liabilities			
Accounts payable	\$ 10,520	\$ 3,692	\$ 14,212
Other current liabilities	174,559	-	174,559
Noncurrent liabilities:			
Due within one year	95,000	-	95,000
Due in more than one year	411,188	-	411,188
Total liabilities	<u>691,267</u>	<u>3,692</u>	<u>694,959</u>
Deferred Inflows of Resources			
Taxes levied for future period	714,025	-	714,025
Total deferred outflows of resources	<u>714,025</u>	<u>-</u>	<u>714,025</u>
Net Position			
Net investment in capital assets	1,482,944	-	1,482,944
Restricted for:			
Capital Outlay	211,140	-	211,140
Special Education	489,398	-	489,398
Pension Fund	131,371	-	131,371
Bond Redemption	186,183	-	186,183
Unrestricted (deficit)	847,408	55,667	903,075
Total net position	<u>3,348,444</u>	<u>55,667</u>	<u>3,404,111</u>
	<u>\$ 4,753,736</u>	<u>\$ 59,359</u>	<u>\$ 4,813,095</u>

Langford Area School District 45-5
Statements of Activities
Years Ended June 30, 2014 and 2013

Functions/Programs	2014						
	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government							
Governmental activities:							
Instruction	\$ 1,241,781	\$ 16,002	\$ 105,723	\$ -	\$ (1,120,056)	\$ -	\$ (1,120,056)
Support services	658,146	11,366	-	-	(646,780)	-	(646,780)
*Interest on long-term debt	15,241	-	-	-	(15,241)	-	(15,241)
Cocurricular activities	69,871	26,869	-	-	(43,002)	-	(43,002)
Total governmental activities	<u>1,985,039</u>	<u>54,237</u>	<u>105,723</u>	<u>-</u>	<u>(1,825,079)</u>	<u>-</u>	<u>(1,825,079)</u>
Business-type activities:							
Food service	146,879	54,478	-	-	-	(92,401)	(92,401)
Total primary government	<u>\$ 2,131,918</u>	<u>\$ 108,715</u>	<u>\$ 105,723</u>	<u>\$ -</u>	<u>(1,825,079)</u>	<u>(92,401)</u>	<u>(1,917,480)</u>
General Revenues							
Taxes:							
Property taxes					1,558,470	-	1,558,470
Gross receipts taxes					76,363	-	76,363
Revenue from State sources:							
State aid					444,739	-	444,739
Other					-	619	619
Revenue from Federal sources					13,957	91,524	105,481
Unrestricted investment earnings					765	-	765
Gain on sale of fixed assets					300	-	300
Other general revenues					38,515	-	38,515
Total general revenues					<u>2,133,109</u>	<u>92,143</u>	<u>2,225,252</u>
Change in Net Position					308,030	(258)	307,772
Net Position - Beginning					<u>3,040,414</u>	<u>55,925</u>	<u>3,096,339</u>
Net Position - Ending					<u>\$ 3,348,444</u>	<u>\$ 55,667</u>	<u>\$ 3,404,111</u>

* The School District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

Langford Area School District 45-5
Statements of Activities
Years Ended June 30, 2014 and 2013

Functions/Programs	2013						
	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government							
Governmental activities:							
Instruction	\$ 1,228,794	\$ 7,450	\$ 71,736	\$ -	\$ (1,149,608)	\$ -	\$ (1,149,608)
Support services	621,924	11,730	-	-	(610,194)	-	(610,194)
*Interest on long-term debt	17,302	-	-	-	(17,302)	-	(17,302)
Cocurricular activities	73,655	20,485	-	-	(53,170)	-	(53,170)
Total governmental activities	<u>1,941,675</u>	<u>39,665</u>	<u>71,736</u>	<u>-</u>	<u>(1,830,274)</u>	<u>-</u>	<u>(1,830,274)</u>
Business-type activities:							
Food service	156,992	51,904	-	-	-	(105,088)	(105,088)
Total primary government	<u>\$ 2,098,667</u>	<u>\$ 91,569</u>	<u>\$ 71,736</u>	<u>\$ -</u>	<u>(1,830,274)</u>	<u>(105,088)</u>	<u>(1,935,362)</u>
General Revenues							
Taxes:							
Property taxes					1,514,988	-	1,514,988
Gross receipts taxes					43,423	-	43,423
Revenue from State sources:							
State aid					520,484	-	520,484
Other					-	1,152	1,152
Revenue from Federal sources					5,676	95,161	100,837
Unrestricted investment earnings					641	-	641
Other general revenues					22,856	-	22,856
Loss on sale of fixed assets					(7,780)	-	(7,780)
Total general revenues					<u>2,100,288</u>	<u>96,313</u>	<u>2,196,601</u>
Change in Net Position					<u>270,014</u>	<u>(8,775)</u>	<u>261,239</u>
Net Position - Beginning, as Previously Stated					2,699,660	64,700	2,764,360
Correction of an Error (See Note 14)					79,434	-	79,434
Change in Reporting, GASB 65 (See Note 15)					(8,694)	-	(8,694)
Net Position - Beginning, as Restated					<u>2,770,400</u>	<u>64,700</u>	<u>2,835,100</u>
Net Position - Ending					<u>\$ 3,040,414</u>	<u>\$ 55,925</u>	<u>\$ 3,096,339</u>

* The School District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

Langford Area School District 45-5
Balance Sheet - Governmental Funds
June 30, 2014

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Fund	Total Funds
Assets						
Cash and cash equivalents	\$ 1,013,821	\$ 209,240	\$ 502,474	\$ 131,249	\$ 185,847	\$ 2,042,631
108 Advance payments	3,500	-	-	-	-	3,500
110 Taxes receivable - current	401,641	173,744	86,872	-	51,768	714,025
112 Taxes receivable - delinquent	3,421	852	871	122	336	5,602
120 Due from local sources	-	1,783	-	-	-	1,783
130 Due from other fund	6,390	-	-	-	-	6,390
140 Due from Federal government	101,872	-	-	-	-	101,872
	<u>\$ 1,530,645</u>	<u>\$ 385,619</u>	<u>\$ 590,217</u>	<u>\$ 131,371</u>	<u>\$ 237,951</u>	<u>\$ 2,875,803</u>
Liabilities and Fund Balances						
Liabilities						
402 Accounts payable	\$ 9,024	\$ 735	\$ 761	\$ -	\$ -	\$ 10,520
404 Contracts payable	125,307	-	10,196	-	-	135,503
450 Payroll deductions, withholdings, and employer matching payable	36,066	-	2,990	-	-	39,056
Total liabilities	<u>170,397</u>	<u>735</u>	<u>13,947</u>	<u>-</u>	<u>-</u>	<u>185,079</u>
Deferred Inflows of Resources						
551 Taxes levied for future period	401,641	173,744	86,872	-	51,768	714,025
551 Unavailable revenue delinquent property taxes	3,421	852	871	122	336	5,602
559 Unavailable revenue-other	16,574	-	-	-	-	16,574
Total deferred inflows of resources	<u>421,636</u>	<u>174,596</u>	<u>87,743</u>	<u>122</u>	<u>52,104</u>	<u>736,201</u>
Fund Balances						
Committed						
Classroom floor additions	-	10,000	-	-	-	10,000
Restricted:						
Capital Outlay	-	200,288	-	-	-	200,288
Special Education	-	-	488,527	-	-	488,527
Pension	-	-	-	131,249	-	131,249
Bond Redemption	-	-	-	-	185,847	185,847
Unassigned	938,612	-	-	-	-	938,612
Total fund balances	<u>938,612</u>	<u>210,288</u>	<u>488,527</u>	<u>131,249</u>	<u>185,847</u>	<u>1,954,523</u>
	<u>\$ 1,530,645</u>	<u>\$ 385,619</u>	<u>\$ 590,217</u>	<u>\$ 131,371</u>	<u>\$ 237,951</u>	<u>\$ 2,875,803</u>

See Notes to Financial Statements

Langford Area School District 45-5
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
Year Ended June 30, 2014

Total Fund Balances - Governmental Funds	\$ 1,954,523
Amounts Reported for Governmental Activities in the Statement of Net Position Are Different Because:	
Capital assets used in governmental activities are not current financial resources and; therefore, are not reported in the funds.	1,877,944
Long-term liabilities, including bonds payable, capital leases payable, OPEB obligations, and early retirement, are not due and payable in the current period and; therefore, are not reported in the funds.	(506,188)
Assets, such as delinquent taxes receivable and grants receivable that are not available to pay for current period expenditures, are deferred in the funds.	<u>22,165</u>
Net Position - Governmental Funds	<u><u>\$ 3,348,444</u></u>

Langford Area School District 45-5
 Statements of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
 Years Ended June 30, 2014 and 2013

	2014					
	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Total Governmental Funds
Revenues						
1000 Revenue from local sources						
1100 Taxes						
1110 Ad valorem taxes	\$ 811,521	\$ 366,722	\$ 259,512	\$ -	\$ 112,408	\$ 1,550,163
1120 Prior year's ad valorem taxes	2,855	971	865	105	298	5,094
1140 Gross receipts taxes	105,944	-	-	-	-	105,944
1190 Penalties and interest on taxes	1,598	728	673	22	226	3,247
1500 Earnings on investments and deposits	746	-	-	-	19	765
1700 Cocurricular activities						
1710 Admissions	23,857	-	-	-	-	23,857
1790 Other pupil activity income	3,012	-	-	-	-	3,012
1900 Other revenue from local sources						
1920 Contributions and donations	20,182	-	-	-	-	20,182
1970 Charges for services	10,344	-	1,022	-	-	11,366
1990 Other	11,136	2,000	-	-	-	13,136
2000 Revenue from intermediate sources						
2110 County apportionment	16,342	-	-	-	-	16,342
2200 Revenue in lieu of taxes	1,639	-	-	-	-	1,639
3000 Revenue from State sources						
3100 Grants-in-aid						
3110 Unrestricted grants-in-aid	444,739	-	-	-	-	444,739
3120 Restricted grants-in-aid	1,250	14,752	-	-	-	16,002
4000 Revenue from Federal sources						
4100 Grants-in-aid						
4150-4199 Restricted grants-in-aid received from Federal government through the State	69,560	6,762	38	-	15	76,375
4900 Other Federal revenue	807	13,150	-	-	-	13,957
	<u>1,525,532</u>	<u>405,085</u>	<u>262,110</u>	<u>127</u>	<u>112,966</u>	<u>2,305,820</u>
Total revenues						

Langford Area School District 45-5
 Statements of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
 Years Ended June 30, 2014 and 2013

	2014					Total Governmental Funds
	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	
Expenditures						
1000 Instruction						
1100 Regular programs						
1110 Elementary	385,247	5,174	-	17,365	-	407,786
1120 Junior high school	140,046	8,034	-	6,592	-	154,672
1130 High school	297,372	37,844	-	12,814	-	348,030
1200 Special programs						
1220 Programs for special education	-	-	173,313	-	-	173,313
1270 Educationally deprived	78,724	-	-	-	-	78,724
2000 Support services						
2100 Pupils:						
2120 Guidance	5,610	-	-	274	-	5,884
2200 Support services - instructional staff						
2210 Improvement of instruction	1,250	-	-	-	-	1,250
2220 Educational media	12,279	-	-	-	-	12,279
2300 Support services - general administration						
2310 Board of Education	12,837	-	-	-	-	12,837
2320 Executive administration	92,672	-	-	4,060	-	96,732
2400 Support services - school administration						
2410 Office of the Principal	42,983	-	-	1,892	-	44,875
2490 Other	352	-	-	-	-	352
2500 Support services - business						
2520 Fiscal services	68,325	-	-	2,466	-	70,791
2540 Operation and maintenance of plant	120,947	115,857	-	1,388	-	238,192
2550 Pupil transportation	90,132	42,500	-	1,461	-	134,093
2700 Support Services - special education						
2710 Administrative costs	-	-	10,621	-	-	10,621
5000 Debt services	-	-	-	-	108,991	108,991
6000 Cocurricular activities						
6100 Male activities	26,499	-	-	1,313	-	27,812
6200 Female activities	20,273	-	-	-	-	20,273
6900 Combined activities	20,071	1,543	-	172	-	21,786
7500 Capital outlay	-	88,050	-	-	-	88,050
Total expenditures	<u>1,415,619</u>	<u>299,002</u>	<u>183,934</u>	<u>49,797</u>	<u>108,991</u>	<u>2,057,343</u>

Langford Area School District 45-5
 Statements of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
 Years Ended June 30, 2014 and 2013

	2014					
	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Total Governmental Funds
Excess of Revenue over (under) Expenditures	109,913	106,083	78,176	(49,670)	3,975	248,477
Other Financing Sources (Uses)						
5130 Sale of surplus property	300	-	-	-	-	300
Net Change in Fund Balances	110,213	106,083	78,176	(49,670)	3,975	248,777
Fund Balance - Beginning	828,399	104,205	410,351	180,919	181,872	1,705,746
Fund Balance - Ending	\$ 938,612	\$ 210,288	\$ 488,527	\$ 131,249	\$ 185,847	\$ 1,954,523

Langford Area School District 45-5
 Statements of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
 Years Ended June 30, 2014 and 2013

	2013					
	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Total Governmental Funds
Revenues						
1000 Revenue from local sources						
1100 Taxes						
1110 Ad valorem taxes	\$ 731,369	\$ 296,402	\$ 330,580	\$ 34,924	\$ 111,401	\$ 1,504,676
1120 Prior year's ad valorem taxes	5,946	1,168	919	277	320	8,630
1140 Gross receipts taxes	55,514	-	-	-	-	55,514
1190 Penalties and interest on taxes	3,019	820	1,076	241	326	5,482
1500 Earnings on investments and deposits	622	-	-	-	19	641
1700 Cocurricular activities						
1710 Admissions	18,351	-	-	-	-	18,351
1790 Other pupil activity income	2,134	-	-	-	-	2,134
1900 Other Revenue from local sources						
1920 Contributions and donations	80	-	-	-	-	80
1960 Judgments	-	17,075	-	-	-	17,075
1970 Charges for services	10,675	-	1,055	-	-	11,730
1990 Other	1,738	-	-	-	-	1,738
2000 Revenue from intermediate sources						
2110 County apportionment	19,126	-	-	-	-	19,126
2200 Revenue in lieu of taxes	969	-	1,023	-	-	1,992
3000 Revenue from State sources						
3100 Grants-in-aid						
3110 Unrestricted grants-in-aid	520,484	-	-	-	-	520,484
3120 Restricted grants-in-aid	7,375	-	-	-	-	7,375
3900 Other State revenue	75	-	-	-	-	75
4000 Revenue from Federal sources						
4100 Grants-in-aid						
4150-4199 Restricted grants-in aid received from Federal Government through the State	71,560	29	41	17	9	71,656
4900 Other Federal revenue	-	5,676	-	-	-	5,676
Total revenues	<u>1,449,037</u>	<u>321,170</u>	<u>334,694</u>	<u>35,459</u>	<u>112,075</u>	<u>2,252,435</u>
Expenditures						
1000 Instruction						
1100 Regular programs						
1110 Elementary	370,579	6,378	-	16,807	-	393,764
1120 Junior high school	137,057	787	-	6,474	-	144,318
1130 High school	290,481	88,460	-	12,748	-	391,689
1200 Special programs						
1220 Programs for special education	-	-	152,413	1,023	-	153,436
1270 Educationally deprived	71,189	-	-	-	-	71,189

Langford Area School District 45-5
 Statements of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
 Years Ended June 30, 2014 and 2013

	2013					
	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Total Governmental Funds
2000 Support services						
2100 Pupils						
2120 Guidance	5,429	-	-	332	-	5,761
2200 Support services - instructional staff						
2210 Improvement of instruction	7,375	-	-	-	-	7,375
2220 Educational media	12,394	-	-	-	-	12,394
2300 Support services - general administration						
2310 Board of Education	25,864	-	-	-	-	25,864
2320 Executive administration	89,718	-	-	3,942	-	93,660
2400 Support services - school administration						
2410 Office of the Principal	41,433	-	-	1,837	-	43,270
2490 Other	403	-	-	-	-	403
2500 Support services - business						
2520 Fiscal services	60,096	-	-	2,394	-	62,490
2540 Operation and maintenance of plant	115,748	92,138	-	1,349	-	209,235
2550 Pupil transportation	90,560	33,730	-	1,220	-	125,510
2700 Support Services - special education						
2710 Administrative costs	-	-	10,095	183	-	10,278
5000 Debt services	-	-	-	-	106,052	106,052
6000 Cocurricular activities						
6100 Male activities	28,393	-	-	1,422	-	29,815
6200 Female activities	21,493	-	-	-	-	21,493
6900 Combined activities	19,546	2,638	-	163	-	22,347
7500 Capital outlay	-	89,704	-	-	-	89,704
Total expenditures	<u>1,387,758</u>	<u>313,835</u>	<u>162,508</u>	<u>49,894</u>	<u>106,052</u>	<u>2,020,047</u>
Excess of Revenue over (under) Expenditures	<u>61,279</u>	<u>7,335</u>	<u>172,186</u>	<u>(14,435)</u>	<u>6,023</u>	<u>232,388</u>
Other Financing Sources (Uses)						
5130 Sale of surplus property	<u>1,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,500</u>
Net Change in Fund Balances	<u>62,779</u>	<u>7,335</u>	<u>172,186</u>	<u>(14,435)</u>	<u>6,023</u>	<u>233,888</u>
Fund Balance - Beginning, Previously Reported	727,858	96,870	238,165	195,354	175,849	1,434,096
Correction of Error (See Note 14)	<u>37,762</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,762</u>
Fund Balance - Beginning, Restated	<u>765,620</u>	<u>96,870</u>	<u>238,165</u>	<u>195,354</u>	<u>175,849</u>	<u>1,471,858</u>
Fund Balance - Ending	<u>\$ 828,399</u>	<u>\$ 104,205</u>	<u>\$ 410,351</u>	<u>\$ 180,919</u>	<u>\$ 181,872</u>	<u>\$ 1,705,746</u>

Langford Area School District 45-5
Reconciliation of the Statements of Revenues, Expenditures, and Changes in Fund Balances to the Government-
Wide Statements of Activities
Years Ended June 30, 2014 and 2013

	2014	2013
Net Change in Fund Balances - Total Governmental Funds	\$ 248,777	\$ 233,888
Amounts Reported for Governmental Activities in the Statements of Activities Are Different Because:		
Governmental funds report capital outlays as expenditures; however, in the statements of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In 2013, capital outlays (\$89,704) exceeded depreciation expense (\$85,596). In 2014, depreciation expense (\$91,728) exceeded capital outlays (\$88,049)	(3,688)	4,108
In the statements of activities, gains and losses on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds from the disposal of capital assets is reflected, regardless of whether or not a gain or loss is realized.	-	(9,280)
In the governmental funds, revenue is reported when an amount is both measurable and available, with available being defined as being received within 60 days of fiscal year end. A certain receipt received during the subsequent year related to the current year was not received until more than 60 days after year-end. As such, this amount is reported as revenue in the statements of activities but not in the governmental funds.	7,408	(17,075)
Repayment of bond and early retirement principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	93,750	88,750
The accrual of OPEB costs are not reflected in governmental funds, but the statements of activities reflect the change in this liability from one year to the next.	(17,768)	(14,486)
The fund financial statement governmental fund tax accruals differ from the government-wide statement tax accruals in that the fund financial statements require the amounts to be "available".	(20,449)	(15,891)
Change in Net Position of Governmental Activities	\$ 308,030	\$ 270,014

Langford Area School District 45-5
Statement of Net Position - Proprietary Funds
June 30, 2014

	Enterprise
	Food Service Fund
Assets	
Current assets	
Cash and cash equivalents	\$ 54,205
Due from Federal government	5,498
171 Inventory of stores purchased for resale	2,812
172 Inventory of donated food	3,234
Total current assets	65,749
200 Capital assets	
204 Machinery and equipment - local funds	10,149
Less accumulated depreciation (credit)	(10,149)
Total noncurrent assets	-
	\$ 65,749
Liabilities	
400 Current liabilities	
402 Accounts payable	\$ 3,692
410 Due to general fund	6,390
Total current liabilities	10,082
Net Position	
708 Unrestricted net position	55,667
Total net position	55,667
	\$ 65,749

Langford Area School District 45-5
 Statements of Revenues, Expenditures, and Changes in Net Position - Proprietary Funds
 Years Ended June 30, 2014 and 2013

	2014	2013
	Enterprise	Enterprise
	Food Service Fund	Food Service Fund
Operating Revenue		
Food sales	\$ 54,478	\$ 51,904
Total operating revenue	<u>54,478</u>	<u>51,904</u>
Operating Expenses		
100 Salaries	44,608	43,555
200 Employee benefits	7,499	7,061
300 Purchased services	27,615	30,434
400 Supplies	2,770	10,049
461 Cost of sales - purchased	54,726	56,395
462 Cost of sales - donated	9,526	8,213
549 Food service equipment	-	1,112
640 Dues and fees	135	173
Total operating expenses	<u>146,879</u>	<u>156,992</u>
Operating Loss	<u>(92,401)</u>	<u>(105,088)</u>
Nonoperating Revenue		
State sources:		
3810 Cash reimbursements	619	1,152
Federal sources:		
4810 Cash reimbursements	80,102	87,476
4820 Donated food	11,422	7,685
Total nonoperating revenue	<u>92,143</u>	<u>96,313</u>
Change in Net Position	(258)	(8,775)
Net Position - Beginning	<u>55,925</u>	<u>64,700</u>
Net Position - Ending	<u>\$ 55,667</u>	<u>\$ 55,925</u>

Langford Area School District 45-5
 Statements of Cash Flows - Proprietary Funds
 Years Ended June 30, 2014 and 2013

	2014	2013
	Enterprise	Enterprise
	Food Service Fund	Food Service Fund
Cash Flows used for Operating Activities		
Cash receipts from customers	\$ 54,478	\$ 51,904
Cash payments to employees for services	(52,107)	(50,616)
Cash payments to suppliers of goods or services	(88,615)	(95,839)
Net Cash used for Operating Activities	(86,244)	(94,551)
Cash Flows from Noncapital Financing Activities		
Operating grants	84,691	85,327
Change in amount due to General Fund	(28)	1,038
Net Cash Flows from Noncapital Financing Activities	84,663	86,365
Net Increase in Cash and Cash Equivalents	(1,581)	(8,186)
Cash and Cash Equivalents Beginning of Year	55,786	63,972
Cash and Cash Equivalents End of Year	\$ 54,205	\$ 55,786
Reconciliation of Operating Loss to Net Cash used for Operating activities		
Operating loss	\$ (92,401)	\$ (105,088)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Value of donated commodities used	9,526	8,213
Change in assets and liabilities:		
Inventories	(680)	40
Accounts and other payables	(2,689)	2,284
Net Cash used for Operating Activities	\$ (86,244)	\$ (94,551)
Noncash Investing, Capital, and Financing Activities		
Value of commodities received	\$ 11,423	\$ 7,684

Langford Area School District 45-5
Statement of Fiduciary Net Position
June 30, 2014

	Agency Funds	Private-Purpose Trust Funds
Assets		
Cash and cash equivalents	\$ 69,053	\$ 40,807
	\$ 69,053	\$ 40,807
Liabilities		
Amounts held for others	\$ 69,053	\$ -
Total liabilities	69,053	-
Net Position		
Held in trust for scholarships	-	40,807
	\$ 69,053	\$ 40,807

Langford Area School District 45-5
 Statements of Changes in Fiduciary Net Position
 Years Ended June 30, 2014 and 2013

	2014	2013
	Private-Purpose Trust Funds	Private-Purpose Trust Funds
Additions:		
Earnings from deposits and investments	\$ 699	\$ 448
Total additions	699	448
Deductions:		
Trust deductions for scholarships	500	500
Total deductions	500	500
Change in Net Position	199	(52)
Net Position - Beginning	40,608	40,660
Net Position - Ending	\$ 40,807	\$ 40,608

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Langford Area School District 45-5 conform to generally accepted accounting principles applicable to government entities in the United States of America.

Financial Reporting Entity

The reporting entity of Langford Area School District 45-5 (the School District), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the School District); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the School District's financial statements to be misleading or incomplete.

Basis of Presentation

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

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

Governmental Funds

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

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

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

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

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

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 costs.

The Bond Redemption Fund - A fund established by SDCL 13-16-13 to account for the proceeds of a special property tax restricted to use for the payment of principal and interest on general obligation bonded debt. This is a major fund.

Proprietary Funds

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

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

Fiduciary Funds

Fiduciary Funds are never considered to be major funds.

Agency Fund Types - 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 as an agent in a trustee capacity for student funds generated within the School District by the students or other School District organizations.

Private-Purpose Trust Fund - Private-purpose trust fund was created to act as a custodian for funds, such as scholarships, held in trust for the benefit of private individuals or organizations. The School District maintains only one private-purpose trust fund for scholarships.

Measurement Focus and Basis of Accounting

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

Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

Basis of Accounting**Government-Wide Financial Statements**

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

Fund Financial Statements

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

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

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

Interfund Eliminations and Reclassifications**Government-Wide Financial Statements**

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

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

Fund Financial Statements

Current portions of interfund receivables (reported in “Due from” asset accounts) are considered “available spendable resources”.

Inventory

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

Capital Assets

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

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

Government-Wide Statements

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

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

The total June 30, 2014 balance of capital assets for governmental activities includes approximately 4% 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 are all valued at original cost. These estimated original costs were established by appraisals or deflated current replacement cost.

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land*	All Land Values	N/A	N/A
Improvements	\$ 5,000	Straight-Line	15-20 years
Buildings	5,000	Straight-Line	33-70 years
Equipment	5,000	Straight-Line	10-20 years
Food service equipment	5,000	Straight-Line	10-20 years

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

Fund Financial Statements

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

Long-Term Liabilities

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

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

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

Program Revenues

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

1. Charges for Services – These arise from charges to customers, applicants, or others who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services.

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

Property Taxes

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

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

Proprietary Funds Revenue and Expense Classifications

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

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

Cash and Cash Equivalents

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

Equity Classifications

Government-Wide Statements

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

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

2. Restricted Net Position – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net assets that do not meet the definition of “restricted” or “net investment in capital assets”.

Fund Financial Statements

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

Application of Net Position

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

Fund Balance Classification Policies and Procedures

The School District classifies governmental fund balances as follows:

- Nonspendable – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints. Includes fund balance amounts related to noncurrent portions of long-term interfund receivables (reported in “Advance to” asset accounts).
- Restricted – Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority which is the School Board and does not lapse at year end.
- Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the School Board or Business Manager.
- Unassigned – Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The School District uses restricted/committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the 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 major special revenue fund and revenue source is listed below:

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

Deferred Inflows of Resources

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

Rounding

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

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

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

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

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

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.

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

Insured (FDIC/NCUA)	\$ 334,501
Uninsured, collateral jointly held by State's/School District's agent in the name of the State and the pledging financial institution	1,541,279
	\$ 1,875,780

The School District's carrying amount of deposits at June 30, 2014	\$ 1,873,267
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Reconciliation of deposits to government-wide statement of net position:

Cash and cash equivalents	\$ 2,096,836
Add: Agency Fund cash (not included in government-wide statement of net position)	109,860
Less: Money market investment account included in cash and cash equivalents:	(333,429)
	\$ 1,873,267

Investments

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

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

	Credit Rating	Maturity	Fair Value
External investment pools:			
SDFIT	Unrated	N/A	\$ 333,429

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing purposes. It is regulated by a nine member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

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

Custodial Credit Risk - The risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has adopted a policy for custodial credit risk, but the adopted policy is no more restrictive than existing South Dakota Codified Law.

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

Credit Risk – State law limits eligible investments for the School District, as discussed above. The School District's investment policy does not further limit its investment choices. As of June 30, 2014, the School District's investment in the SD FIT pool was unrated.

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

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from investments to the General Fund, except for Bond Redemption Fund income from deposits specifically held in the Bond Redemption Fund name, which stay in the Bond Redemption Fund. Accounting principles generally accepted in the United States of America, on the other hand, required income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board had discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated 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 interfund transfers are not violations of the statutory restrictions on interfund transfers.

Note 3 - Receivables and Payables

Receivables and payables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year.

Note 4 - Changes in Capital Assets

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

<u>Primary Government</u>	<u>Balance 06/30/13</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 06/30/14</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 9,003	\$ -	\$ -	\$ 9,003
Total, not being depreciated	<u>9,003</u>	<u>-</u>	<u>-</u>	<u>9,003</u>
Capital assets, being depreciated:				
Improvements	41,779	-	-	41,779
Buildings	2,782,092	17,385	-	2,799,477
Machinery and equipment	617,487	70,664	12,100	676,051
Total, being depreciated	<u>3,441,358</u>	<u>88,049</u>	<u>12,100</u>	<u>3,517,307</u>
Total accumulated depreciation	<u>1,568,738</u>	<u>91,728</u>	<u>12,100</u>	<u>1,648,366</u>
Total capital assets, being depreciated, net	<u>1,872,620</u>	<u>(3,679)</u>	<u>-</u>	<u>1,868,941</u>
Governmental activity capital assets, net	<u>\$ 1,881,623</u>	<u>\$ (3,679)</u>	<u>\$ -</u>	<u>\$ 1,877,944</u>

Depreciation expense was charged to functions as follows:

Governmental activities	
Instruction	\$ 61,488
Support services	30,240
Total depreciation expense - governmental activities	<u>\$ 91,728</u>

	<u>Balance 06/30/13</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 06/30/14</u>
Business-type activities				
Capital assets, being depreciated:				
Machinery and equipment	\$ 10,149	\$ -	\$ -	\$ 10,149
Total, being depreciated	<u>10,149</u>	<u>-</u>	<u>-</u>	<u>10,149</u>
Total accumulated depreciation	<u>10,149</u>	<u>-</u>	<u>-</u>	<u>10,149</u>
Total capital assets, being depreciated, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Business-type activity capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense was charged to functions as follows:

Business-type activities:	
Food service	\$ -
Total depreciation expense - business-type activities	<u>\$ -</u>

Langford Area School District 45-5
Notes to Financial Statements
June 30, 2014 and 2013

<u>Primary Government</u>	<u>Balance 07/01/12</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/13</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 9,003	\$ -	\$ -	\$ 9,003
Total, not being depreciated	<u>9,003</u>	<u>-</u>	<u>-</u>	<u>9,003</u>
Capital assets, being depreciated:				
Improvements	41,779	-	-	41,779
Buildings	2,782,092	-	-	2,782,092
Machinery and equipment	569,025	89,704	41,242	617,487
Total, being depreciated	<u>3,392,896</u>	<u>89,704</u>	<u>41,242</u>	<u>3,441,358</u>
Total accumulated depreciation	<u>1,515,104</u>	<u>85,596</u>	<u>31,962</u>	<u>1,568,738</u>
Total capital assets, being depreciated, net	<u>1,877,792</u>	<u>4,108</u>	<u>9,280</u>	<u>1,872,620</u>
Governmental activity capital assets, net	<u>\$ 1,886,795</u>	<u>\$ 4,108</u>	<u>\$ 9,280</u>	<u>\$ 1,881,623</u>

Depreciation expense was charged to functions as follows:

Governmental activities			
Instruction			\$ 59,912
Support services			<u>25,684</u>
Total depreciation expense - governmental activities			<u>\$ 85,596</u>

	<u>Balance 07/01/12</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/13</u>
Business-type activities				
Capital assets, being depreciated:				
Machinery and equipment	\$ 10,149	\$ -	\$ -	\$ 10,149
Total, being depreciated	<u>10,149</u>	<u>-</u>	<u>-</u>	<u>10,149</u>
Total accumulated depreciation	<u>10,149</u>	<u>-</u>	<u>-</u>	<u>10,149</u>
Total capital assets, being depreciated, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Business-type activity capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense was charged to functions as follows:

Business-type activities:			
Food service			\$ -
Total depreciation expense - business-type activities			<u>\$ -</u>

Note 5 - Long-Term Liabilities

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

Purpose	Amounts Outstanding 6/30/2013	Issued	Retired	Amounts Outstanding 6/30/2014	Due in One Year
Primary Government					
Government activities:					
Bonds Payable					
General Obligation Series 2009	\$ 488,750	\$ 1,250	\$ 95,000	\$ 395,000	\$ 95,000
Other post retirement benefits	93,420	26,868	9,100	111,188	-
Total primary government	<u>\$ 582,170</u>	<u>\$ 28,118</u>	<u>\$ 104,100</u>	<u>\$ 506,188</u>	<u>\$ 95,000</u>

Purpose	Amounts Outstanding 6/30/2012	Issued	Retired	Amounts Outstanding 6/30/2013	Due in One Year
Primary Government					
Government activities:					
Bonds Payable					
General Obligation Series 2009	\$ 577,500	\$ 1,250	\$ 90,000	\$ 488,750	\$ 95,000
Other post retirement benefits	78,934	27,488	13,002	93,420	-
Total primary government	<u>\$ 656,434</u>	<u>\$ 28,738</u>	<u>\$ 103,002</u>	<u>\$ 582,170</u>	<u>\$ 95,000</u>

Debt payable at June 30, 2014 is comprised of the following:

General Obligation Bonds

General Obligation Refunding Bonds Series 2009, annual installments due July, interest rates range from of 1.75 to 3.45 % for the eight years, maturity dates July 15, 2010 to July 15, 2017 paid from the Bond Redemption Fund.

\$ 488,750

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

Year Ending June 30:	General Obligation	
	Principal	Interest
2015	\$ 95,000	\$ 11,169
2016	100,000	8,363
2017	105,000	5,156
2018	100,000	1,725
Minus unamortized discount	(5,000)	-
	<u>\$ 395,000</u>	<u>\$ 26,413</u>

Note 6 - Restricted Net Position

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

<u>Purpose</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay	Law	\$ 211,140
Special Education	Law	489,398
Pension Fund	Law	131,371
Bond Redemption	Law	186,183
		<u>\$ 1,018,092</u>

Note 7 - Special Termination Benefits

The School District has an early retirement policy in which the employee will receive a one-time benefit of \$17,500 payable in three installments over a three year period of time. The employee must meet the following criteria: the employee has served the School District for at least 15 years and is between the ages of 55 and 62 by the end of the calendar year in which the application is made, and the Superintendent must receive a written request on or before the second Monday in March in the year in which the retirement is to take effect. The maximum number of recipients approved in any one year shall not exceed three, and the chronological order in which the applications are received will determine the priority of the recipients. During the 2014 and 2013 fiscal years, no employees requested the benefit.

Note 8 - Retirement Plan

All full-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. The SDRS provides retirement, disability and survivors benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by State statute to contribute the following percentages of their salary to the plan; Class A Members, 6% of salary; Class B Judicial Members, 9% of salary; and Class B Public Safety Members, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2014, 2013, and 2012 was \$59,259, \$57,463, and \$55,662, respectively, equal to the required contributions each year.

Note 9 - Joint Venture

The School District participates in the North Central Special Education Cooperative (Co-op), formed for the purpose of providing special education and other services to the member school districts.

North Central Special Education Cooperative

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

Doland School District	14.28%
Northwestern Area School District	14.28%
Groton Area School District	14.28%
Hitchcock-Tulare School District	14.29%
Langford Area School District	14.29%
Frederick Area School District	14.29%
Warner School District	14.29%

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

The School District retains no equity interest in the net position of the Co-op, but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation described above.

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

At June 30, 2014, this joint venture had total assets and fund equity of \$497,251.

Note 10 - Risk Management

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

Employee Health Insurance

The School District joined the South Dakota School District Health Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The School District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The School District offers a choice of three plans with deductibles from \$500 to \$1,250 per person and \$1,000 to \$2,500 per family. The plans also provides for coinsurance of 80% up to \$2,500 to \$10,000 depending upon the plan chosen by the employee. The School District pays the employees monthly single policy premium up to a maximum of \$490 and \$480 in 2014 and 2013, respectively. The coverage also includes a \$2,000,000 lifetime maximum payment per person.

The School District does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Liability Insurance

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

The agreement with the Associated School Boards of South Dakota Property Liability Fund provides that the above coverage's will be provided to a \$2,500,000 property limit and \$2,000,000 liability limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$50,000 to the upper limit. The School District carries a \$500 deductible for the liability, property and error and omissions coverage.

The School District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Worker's Compensation

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provided workers' compensation insurance coverage for participating members of the pool. The objective of the fund is to formulate, develop and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the fund to resolve any worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the fund members. The School District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. For the two years ended June 30, 2014, the pool's retained risk was \$500,000 per occurrence with additional insurance purchased from a private insurance company for an additional \$500,000 for total coverage of \$1,000,000 per occurrence. There was no additional assessment charged to pool members for the two years ended June 30, 2014.

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

Unemployment Benefits

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

The School District has not assigned equity for the payment of future unemployment benefits.

During the two years ended June 30, 2014, no unemployment benefits had been paid. At June 30, 2014, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

Note 11 - Postemployment Healthcare Plan

Plan Description

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

Funding Policy

The contribution requirements of plan members and the School District are established and may be amended during the negotiated agreement process between district certified staff and the governing board. A teacher or administrator, who retires from the School District on or after the age of 55 and with at least 3 years of consecutive service with the School District, may be eligible for retiree health insurance coverage. Coverage ceases when the retiree attains the age of 65. The retiree is responsible for 100% of the full active premium rates for either single or family coverage.

Annual OPEB Cost and Net OPEB Obligation

The School District's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB accounting Standards Codification Topic ASC (previously GASB Statement 45). The School District has elected to calculate the ARC and related information using the alternative measurement method permitted by Topic ASC for employers on plans with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the financial components of the plan:

	2014	2013
Annual required contribution (ARC)	\$ 30,780	\$ 30,544
Interest on net OPEB obligation	1,693	1,680
Adjustment to annual required contribution	(5,605)	(4,736)
Annual OPEB cost	26,868	27,488
Contributions made	(9,100)	(13,002)
Increase in net OPEB obligation	17,768	14,486
Net OPEB obligation - July 1	93,420	78,934
Net OPEB obligation - June 30	\$ 111,188	\$ 93,420

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

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
2014	\$ 26,868	33.9%	\$ 111,188
2013	27,488	47.3%	93,420
2012	37,287	28.3%	78,934

Funded Status and Funding Process

As of June 30, 2014, the plan's actuarial accrued liability (AAL) and the unfunded actuarial accrued liability (UAAL) for benefits was \$282,598. The School District's plan is considered to be unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because the plan is unfunded, the AAL and UAAL are equal. The covered payroll (annual payroll of active employees covered by the plan) was \$1,252,252 and \$1,173,808, respectively, and the rate of the UAAL to the covered payroll was 21.43% and 23.3%, respectively.

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

Actuarial Methods and Assumptions

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

The following simplifying assumptions were made:

- Retirement Age for Active Employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62, or at the first subsequent year in which the member would qualify for benefits.
- Marital Status – Marital status of members at the calculation date was assumed to continue throughout retirement.
- Mortality – Life expectancies were based on mortality tables from the National Center for Health Statistics. The 19W9 United States Life Tables for Males and for Females were used.
- Turnover – Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.
- Healthcare Cost Trend Rate – The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 8.5% initially, reduced to an ultimate rate of 6.7% after six years, was used.
- Health Insurance Premiums – 2014 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.
- Inflation Rate – The expected long-term inflation assumption of 3.3% was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.
- Payroll Growth Rate – The expected long-term payroll growth rate was assumed to equal the rate of inflation.

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

Note 12 - Litigation

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

Note 13 - Individual Fund Interfund Balances and Transactions

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

	Interfund Receivables	Interfund Payables
General Fund	\$ 6,390	\$ -
Food Service Fund	-	6,390
	\$ 6,390	\$ 6,390

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

Note 14 - Correction of Error

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

Utility gross receipts tax revenue and the related accounts receivables totaling \$37,762 were not recorded in the General Fund. To correct this error, the beginning fund balance of the General Fund of \$727,858, as originally reported, has been increased to \$765,620. It was also determine that the utility gross receipts tax revenue and related accounts receivables totaling \$79,434 were not recorded in the governmental activities. To correct this error, the beginning net position balance of the governmental activities of \$2,699,660, as originally reported, has been increased to \$2,779,094.

Note 15 - Early Implementation of New Accounting Standards

In March, 2012 GASB issued Statement No. 65 “Item Previously Reported as Assets and Liabilities.” Statement 65 is effective for financial statements for periods beginning after December 15, 2012. The School District elected to adopt GASB 65 starting with the year ended June 30, 2013. The provisions were applied retroactively to the beginning July 1, 2012 net position. As a result of implementing this statement, the School District changed the classification of certain liabilities to deferred inflows. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has only one type of item, unavailable revenue, reported only in the governmental funds balance sheet and in the governmental activities statement of net position. The governmental funds report unavailable property tax revenues, unavailable grant revenue and taxes levied for future periods, which are deferred and recognized as an inflow of resources in the period that the amounts become available. The governmental activities report taxes levied for future periods, which are deferred and recognized as an inflow of resources in the period that the amounts become available.

The retroactive application of the standard has resulted in a cumulative adjustment to the opening balance as a decrease of net position as of July 1, 2012 of \$8,694, for the balances of the deferred debt issuance costs.



Required Supplementary Information
June 30, 2014 and 2013

Langford Area School District 45-5

Langford Area School District 45-5
 Schedule of Funding Progress
 Two Years Ended June 30, 2014

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Unit Credit (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
June 30, 2014	\$ -	\$ 282,598	\$ 282,598	0.00%	\$ 1,252,252	22.57%
June 30, 2013	-	273,439	273,439	0.00%	1,173,808	23.30%
June 30, 2012	-	310,343	310,343	0.00%	1,113,774	27.86%

Langford Area School District 45-5
 Budgetary Comparison Schedules - Budgetary Basis - General Fund
 Years Ended June 30, 2014 and 2013

	2014			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1110 Ad valorem taxes	\$ 708,000	\$ 708,000	\$ 811,521	\$ 103,521
1120 Prior year's ad valorem taxes	-	-	2,855	2,855
1140 Gross receipts taxes	80,000	80,000	105,944	25,944
1190 Penalties and interest on taxes	-	-	1,598	1,598
1500 Earnings on investments and deposits	500	500	746	246
1700 Cocurricular activities				
1710 Admissions	19,000	19,000	23,857	4,857
1790 Other pupil activity income	-	-	3,012	3,012
1900 Other revenue from local sources				
1920 Contributions and donations	-	-	20,182	20,182
1970 Charges for services	8,500	8,500	10,344	1,844
1990 Other	3,500	3,500	11,136	7,636
2000 Revenue from intermediate sources				
2100 County sources				
2110 County apportionment	22,500	22,500	16,342	(6,158)
2200 Revenue in lieu of taxes	-	-	1,639	1,639
3000 Revenue from State sources				
3100 Grants-in-aid				
3110 Unrestricted grants-in-aid	538,200	538,200	444,739	(93,461)
3120 Restricted grants-in-aid	8,000	8,000	1,250	(6,750)
4000 Revenue from Federal sources				
4100 Grants-in-aid				
4150-4199 Restricted grants-in-aid received from Federal government through the State	82,750	82,750	69,560	(13,190)
4900 Other Federal revenue	-	-	807	807
Total revenues	<u>1,470,950</u>	<u>1,470,950</u>	<u>1,525,532</u>	<u>54,582</u>

Langford Area School District 45-5
 Budgetary Comparison Schedules - Budgetary Basis - General Fund
 Years Ended June 30, 2014 and 2013

	2014			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
1000 Instruction				
1100 Regular programs				
1110 Elementary	399,000	399,000	385,247	13,753
1120 Junior high school	149,500	149,500	140,046	9,454
1130 High school	327,500	327,500	297,372	30,128
1200 Special programs				
1270 Educationally deprived	82,750	82,750	78,724	4,026
2000 Support services				
2100 Pupils:				
2120 Guidance	6,750	6,750	5,610	1,140
2200 Support services - instructional staff				
2210 Improvement of instruction	8,000	8,000	1,250	6,750
2220 Educational media	14,250	14,250	12,279	1,971
2300 Support services - general administration				
2310 Board of Education	17,000	17,000	12,837	4,163
2320 Executive administration	95,250	95,250	92,672	2,578
2400 Support services - school administration				
2410 Office of the Principal	44,500	44,500	42,983	1,517
2490 Other	1,000	1,000	352	648
2500 Support services - business				
2520 Fiscal services	69,250	69,250	68,325	925
2540 Operation and maintenance of plant	136,250	136,250	120,947	15,303
2550 Pupil transportation	125,000	125,000	90,132	34,868
6000 Cocurricular activities				
6100 Male activities	28,700	28,700	26,499	2,201
6200 Female activities	24,700	24,700	20,273	4,427
6900 Combined activities	20,600	21,600	20,071	1,529
7000 Contingencies	40,000	40,000	-	40,000
Amount transferred	-	(1,000)	-	(1,000)
Total expenditures	<u>1,590,000</u>	<u>1,590,000</u>	<u>1,415,619</u>	<u>174,381</u>
Excess of Revenue over (under) Expenditures	<u>(119,050)</u>	<u>(119,050)</u>	<u>109,913</u>	<u>228,963</u>
Sale of surplus property	<u>-</u>	<u>-</u>	<u>300</u>	<u>300</u>
Net Change in Fund Balances	(119,050)	(119,050)	110,213	229,263
Fund Balance - Beginning	<u>828,399</u>	<u>828,399</u>	<u>828,399</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 709,349</u>	<u>\$ 709,349</u>	<u>\$ 938,612</u>	<u>\$ 229,263</u>

Langford Area School District 45-5
 Budgetary Comparison Schedules - Budgetary Basis - General Fund
 Years Ended June 30, 2014 and 2013

	2013			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1110 Ad valorem taxes	\$ 703,000	\$ 703,000	\$ 731,369	\$ 28,369
1120 Prior year's ad valorem taxes	-	-	5,946	5,946
1140 Gross receipts taxes	100,000	100,000	55,514	(44,486)
1190 Penalties and interest on taxes	-	-	3,019	3,019
1500 Earnings on investments and deposits	500	500	622	122
1700 Cocurricular activities				
1710 Admissions	17,000	17,000	18,351	1,351
1790 Other pupil activity income	2,000	2,000	2,134	134
1900 Other revenue from local sources				
1920 Contributions and donations	-	-	80	80
1970 Charges for services	8,500	8,500	10,675	2,175
1990 Other	10,500	10,500	1,738	(8,762)
2000 Revenue from intermediate sources				
2100 County sources				
2110 County apportionment	22,500	22,500	19,126	(3,374)
2200 Revenue in lieu of taxes	-	-	969	969
3000 Revenue from State sources				
3100 Grants-in-aid				
3110 Unrestricted grants-in-aid	489,400	489,400	520,484	31,084
3120 Restricted grants-in-aid	-	-	7,375	7,375
3900 Other state revenue	-	-	75	75
4000 Revenue from Federal sources				
4100 Grants-in-aid				
4150-4199 Restricted grants-in-aid received from Federal Government through the State	82,750	82,750	71,560	(11,190)
Total revenues	<u>1,436,150</u>	<u>1,436,150</u>	<u>1,449,037</u>	<u>12,887</u>

Langford Area School District 45-5
 Budgetary Comparison Schedules - Budgetary Basis - General Fund
 Years Ended June 30, 2014 and 2013

	2013			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
1000 Instruction				
1100 Regular programs				
1110 Elementary	390,000	390,000	370,579	19,421
1120 Junior high school	146,000	146,000	137,057	8,943
1130 High school	318,500	318,500	290,481	28,019
1200 Special programs				
1270 Educationally deprived	82,750	82,750	71,189	11,561
2000 Support services				
2100 Pupils				
2120 Guidance	6,500	6,500	5,429	1,071
2200 Support services - instructional staff				
2210 Improvement of instruction	8,000	8,000	7,375	625
2220 Educational media	13,750	13,750	12,394	1,356
2300 Support services - general administration				
2310 Board of Education	30,500	30,500	25,864	4,636
2320 Executive administration	92,750	92,750	89,718	3,032
2400 Support services - school administration				
2410 Office of the Principal	42,250	42,250	41,433	817
2490 Other	1,000	1,000	403	597
2500 Support services - business				
2520 Fiscal services	61,000	61,000	60,096	904
2540 Operation and maintenance of plant	133,000	133,000	115,748	17,252
2550 Pupil transportation	118,000	118,000	90,560	27,440
6000 Cocurricular activities				
6100 Male activities	26,750	26,750	28,393	(1,643)
6200 Female activities	21,700	21,700	21,493	207
6900 Combined activities	20,550	21,300	19,546	1,754
7000 Contingencies	40,000	40,000	-	40,000
Amount transferred	-	(750)	-	(750)
Total expenditures	<u>1,553,000</u>	<u>1,553,000</u>	<u>1,387,758</u>	<u>165,242</u>
Excess of Revenue over (under) Expenditures	<u>(116,850)</u>	<u>(116,850)</u>	<u>61,279</u>	<u>178,129</u>
Other Financing Sources (Uses)				
5130 Sale of surplus property	-	-	1,500	1,500
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>1,500</u>	<u>1,500</u>
Net Change in Fund Balances	<u>(116,850)</u>	<u>(116,850)</u>	<u>62,779</u>	<u>179,629</u>
Fund Balance - Beginning, Previously Reported	727,858	727,858	727,858	-
Correction of Error (See Note 14)	37,762	37,762	37,762	-
Fund Balance, Beginning, Restated	<u>765,620</u>	<u>765,620</u>	<u>765,620</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 648,770</u>	<u>\$ 648,770</u>	<u>\$ 828,399</u>	<u>\$ 179,629</u>

Langford Area School District 45-5
 Budgetary Comparison Schedules - Budgetary Basis - Capital Outlay Fund
 Years Ended June 30, 2014 and 2013

	2014			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1110 Ad valorem taxes	\$ 335,000	\$ 335,000	\$ 366,722	\$ 31,722
1120 Prior year's ad valorem taxes	-	-	971	971
1190 Penalties and interest on taxes	-	-	728	728
1900 Other revenue from local sources				
1990 Other	-	-	2,000	2,000
3000 Revenue from State sources				
3100 Grants-in-aid:				
3120 Restricted grants-in-aid	-	-	14,752	14,752
4000 Revenue from Federal sources				
4100 Grants-in-aid				
4150-4199 Restricted grants-in-aid received from Federal government through the State	-	-	6,762	6,762
4900 Other Federal revenue	-	-	13,150	13,150
Total revenues	<u>335,000</u>	<u>335,000</u>	<u>405,085</u>	<u>70,085</u>
Expenditures				
1000 Instruction				
1100 Regular programs				
1110 Elementary	20,000	20,000	5,174	14,826
1120 Junior high school	10,000	10,000	8,034	1,966
1130 High school	55,000	55,000	69,687	(14,687)
2000 Support services				
2200 Support services - instructional staff				
2220 Educational media	1,000	1,000	156	844
2500 Support services - business				
2540 Operation and maintenance of plant	170,000	180,000	150,992	29,008
2550 Pupil transportation	73,000	73,000	63,416	9,584
5000 Debt service				
6000 Cocurricular activities				
6100 Male activities	1,400	1,400	-	1,400
6200 Female activities	1,400	1,400	-	1,400
6900 Combined activities	3,200	3,200	1,543	1,657
Total expenditures	<u>335,000</u>	<u>345,000</u>	<u>299,002</u>	<u>45,998</u>
Net Change in Fund Balances	-	(10,000)	106,083	116,083
Fund Balance - Beginning	<u>104,205</u>	<u>104,205</u>	<u>104,205</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 104,205</u>	<u>\$ 94,205</u>	<u>\$ 210,288</u>	<u>\$ 116,083</u>

Langford Area School District 45-5
 Budgetary Comparison Schedules - Budgetary Basis - Capital Outlay Fund
 Years Ended June 30, 2014 and 2013

	2013			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1110 Ad valorem taxes	\$ 325,000	\$ 325,000	\$ 296,402	\$ (28,598)
1120 Prior year's ad valorem taxes	-	-	1,168	1,168
1190 Penalties and interest on taxes	-	-	820	820
1900 Other revenue from local sources				
1960 Judgments	-	-	17,075	17,075
4000 Revenue from Federal sources				
4100 Grants-in-aid				
4150-4199 Restricted grants-in-aid received from Federal Government through the State	-	-	29	29
4900 Other Federal revenue	10,000	10,000	5,676	(4,324)
Total revenues	<u>335,000</u>	<u>335,000</u>	<u>321,170</u>	<u>(13,830)</u>
Expenditures				
1000 Instruction				
1100 Regular programs				
1110 Elementary	12,000	12,000	6,378	5,622
1120 Junior high school	5,000	5,000	787	4,213
1130 High school	100,000	100,000	96,092	3,908
2000 Support services				
2200 Support services - instructional staff				
2220 Educational media	1,000	1,000	-	1,000
2500 Support services - business				
2540 Operation and maintenance of plant	116,000	116,000	92,138	23,862
2550 Pupil transportation	95,000	116,000	115,802	198
6000 Cocurricular activities				
6100 Male activities	900	900	-	900
6200 Female activities	900	900	-	900
6900 Combined activities	4,200	4,200	2,638	1,562
Total expenditures	<u>335,000</u>	<u>356,000</u>	<u>313,835</u>	<u>42,165</u>
Net Change in Fund Balances	-	(21,000)	7,335	28,335
Fund Balance - Beginning	<u>96,870</u>	<u>96,870</u>	<u>96,870</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 96,870</u>	<u>\$ 75,870</u>	<u>\$ 104,205</u>	<u>\$ 28,335</u>

Langford Area School District 45-5
 Budgetary Comparison Schedules - Budgetary Basis - Special Education Fund
 Years Ended June 30, 2014 and 2013

	2014			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1110 Ad valorem taxes	\$ 245,000	\$ 245,000	\$ 259,512	\$ 14,512
1120 Prior year's ad valorem taxes	-	-	865	865
1190 Penalties and interest on taxes	-	-	673	673
1900 Other revenue from local sources				
1970 Charges for services	-	-	1,022	1,022
4000 Revenue from Federal sources				
4100 Grants-in-aid				
4150-4199 Restricted grants-in-aid received from Federal government through the State	-	-	38	38
Total revenues	<u>245,000</u>	<u>245,000</u>	<u>262,110</u>	<u>17,110</u>
Expenditures				
1000 Instruction				
1200 Special programs				
1220 Programs for special education	225,900	225,900	173,313	52,587
2000 Support services				
2100 Support Services - pupils				
2120 Guidance	7,100	7,100	-	7,100
2700 Support Services - special education				
2710 Administrative costs	12,000	12,000	10,621	1,379
Total expenditures	<u>245,000</u>	<u>245,000</u>	<u>183,934</u>	<u>61,066</u>
Net Change in Fund Balances	-	-	78,176	78,176
Fund Balance - Beginning	<u>410,351</u>	<u>410,351</u>	<u>410,351</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 410,351</u>	<u>\$ 410,351</u>	<u>\$ 488,527</u>	<u>\$ 78,176</u>

Langford Area School District 45-5
 Budgetary Comparison Schedules - Budgetary Basis - Special Education Fund
 Years Ended June 30, 2014 and 2013

	2013			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1110 Ad valorem taxes	\$ 325,000	\$ 325,000	\$ 330,580	\$ 5,580
1120 Prior year's ad valorem taxes	-	-	919	919
1190 Penalties and interest on taxes	-	-	1,076	1,076
1900 Other Revenue from local sources				
1970 Charges for services	-	-	1,055	1,055
2000 Revenue from intermediate sources				
2200 Revenue in lieu of taxes	-	-	1,023	1,023
4000 Revenue from Federal sources				
4100 Grants-in-aid				
4150-4199 Restricted grants-in-aid received from Federal government through the State	-	-	41	41
Total revenues	<u>325,000</u>	<u>325,000</u>	<u>334,694</u>	<u>9,694</u>
Expenditures				
1000 Instruction				
1200 Special programs				
1220 Programs for special education	307,000	307,000	152,413	154,587
2000 Support services				
2100 Support services - pupils:				
2120 Guidance	6,500	6,500	-	6,500
2700 Support Services - special education				
2710 Administrative costs	11,500	11,500	10,095	1,405
Total expenditures	<u>325,000</u>	<u>325,000</u>	<u>162,508</u>	<u>162,492</u>
Net Change in Fund Balances	-	-	172,186	172,186
Fund Balance - Beginning	<u>238,165</u>	<u>238,165</u>	<u>238,165</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 238,165</u>	<u>\$ 238,165</u>	<u>\$ 410,351</u>	<u>\$ 172,186</u>

Langford Area School District 45-5
 Budgetary Comparison Schedules - Budgetary Basis - Pension Fund
 Years Ended June 30, 2014 and 2013

	2014			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1120 Prior year's ad valorem taxes	\$ -	\$ -	\$ 105	\$ 105
1190 Penalties and interest on taxes	-	-	22	22
Total revenues	-	-	127	127
Expenditures				
1000 Instruction				
1100 Regular programs				
1110 Elementary	18,000	18,000	17,365	635
1120 Junior high school	7,500	7,500	6,592	908
1130 High school	14,000	14,000	12,814	1,186
2000 Support services				
2100 Pupils:				
2120 Guidance	500	500	274	226
2300 Support services - general administration				
2320 Executive administration	4,250	4,250	4,060	190
2400 Support services - school administration				
2410 Office of the Principal	2,250	2,250	1,892	358
2500 Support services - business				
2520 Fiscal services	2,750	2,750	2,466	284
2540 Operation and maintenance of plant	1,750	1,750	1,388	362
2550 Pupil transportation	1,500	1,500	1,461	39
6000 Cocurricular activities				
6100 Male activities	1,750	1,750	1,313	437
6900 Combined activities	250	250	172	78
Total expenditures	54,500	54,500	49,797	4,703
Net Change in Fund Balances	(54,500)	(54,500)	(49,670)	4,830
Fund Balance - Beginning	180,919	180,919	180,919	-
Fund Balance - Ending	\$ 126,419	\$ 126,419	\$ 131,249	\$ 4,830

Langford Area School District 45-5
 Budgetary Comparison Schedules - Budgetary Basis - Pension Fund
 Years Ended June 30, 2014 and 2013

	2013			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1110 Ad valorem taxes	\$ 47,000	\$ 47,000	\$ 34,924	\$ (12,076)
1120 Prior year's ad valorem taxes	-	-	277	277
1190 Penalties and interest on taxes	-	-	241	241
4000 Revenue from Federal sources				
4100 Grants-in-aid				
4150-4199 Restricted grants-in-aid received from Federal government through the State	-	-	17	17
Total revenues	<u>47,000</u>	<u>47,000</u>	<u>35,459</u>	<u>(11,541)</u>
Expenditures				
1000 Instruction				
1100 Regular programs				
1110 Elementary	18,000	18,000	16,807	1,193
1120 Junior high school	7,500	7,500	6,474	1,026
1130 High school	14,000	14,000	12,748	1,252
1200 Special programs				
1220 Programs for special education	4,500	4,500	1,023	3,477
2000 Support services				
2100 Pupils				
2120 Guidance	750	750	332	418
2300 Support services - general administration				
2320 Executive administration	4,250	4,250	3,942	308
2400 Support services - school administration				
2410 Office of the Principal	2,000	2,000	1,837	163
2500 Support services - business				
2520 Fiscal services	2,500	2,500	2,394	106
2540 Operation and maintenance of plant	1,500	1,500	1,349	151
2550 Pupil transportation	1,500	1,500	1,220	280
2700 Support Services - special education				
2710 Administrative costs	500	500	183	317
6000 Cocurricular activities				
6100 Male activities	1,750	1,750	1,422	328
6900 Combined activities	250	250	163	87
Total expenditures	<u>59,000</u>	<u>59,000</u>	<u>49,894</u>	<u>9,106</u>
Net Change in Fund Balances	(12,000)	(12,000)	(14,435)	(2,435)
Fund Balance - Beginning	<u>195,354</u>	<u>195,354</u>	<u>195,354</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 183,354</u>	<u>\$ 183,354</u>	<u>\$ 180,919</u>	<u>\$ (2,435)</u>

Note 1 - Basis of Presentation

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

Note 2 - Budgetary Legal Requirements

Budgets and Budgetary Accounting

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

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



CPAs & BUSINESS ADVISORS

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

The School Board
Langford Area School District 45-5
Langford, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Langford Area School District 45-5 (the School District) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated December 12, 2014.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Example Entity's Response to Findings

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

Purpose of this Report

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

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

Aberdeen, South Dakota
December 12, 2014

Status of Prior Audit Recommendations

Finding 2012-1

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

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

Finding 2012-2

The School District does not have an internal control system over financial reporting due to identify misstatements so they can be corrected before the annual report is complete.

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

Current Audit Findings and Recommendations

Finding 2014-A Lack of Segregation of Duties

Condition: Langford Area School District 45-5 has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures and payroll functions because of a lack of segregation of duties.

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

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

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

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

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

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

Condition: Langford Area School District 45-5 requested the external auditors to prepare the financial statements and related notes for the two years ended June 30, 2014. As a part of the financial statement preparation process, at times we propose material audit adjustments that are not identified as a result of the School District's existing internal controls and; therefore, could result in a misstatement of the School District's financial statements.

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

Cause: The School District does not have adequate staff trained to prepare financial statements and the related footnotes and could cause the need for auditors to at times propose material journal entries.

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

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure that generally accepted accounting principles have been followed for each fund type, especially for transaction types infrequent in occurrence.

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