



Financial Statements  
June 30, 2014

# Warner School District 6-5

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## Independent Auditor's Report

To the School Board  
Warner School District 6-5  
Warner, 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 Warner School District 6-5 (the School District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Warner School District 6-5, as of June 30, 2014, and the respective changes in financial position and, where, applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Adoption of New Accounting Standard**

As described in Note 13 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 13 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 information on pages 36 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 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 1, 2014

Warner School District 6-5  
Statement of Net Position  
June 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 3,356,749	\$ 1,288	\$ 3,358,037
Investments	479,365	-	479,365
Taxes receivable	570,563	-	570,563
Inventories	-	3,056	3,056
Due from other fund	4,681	(4,681)	-
Other assets	59,145	-	59,145
Capital assets:			
Land, improvements and construction in progress	1,029,815	-	1,029,815
Other capital assets, net of depreciation	4,424,976	19,355	4,444,331
	<u>\$ 9,925,294</u>	<u>\$ 19,018</u>	<u>\$ 9,944,312</u>
<b>Liabilities</b>			
Accounts payable	\$ 638,114	\$ 342	\$ 638,456
Due to agency fund	515	-	515
Other current liabilities	282,288	4,932	287,220
Noncurrent liabilities:			
Due within one year	204,335	-	204,335
Due in more than one year	3,222,566	-	3,222,566
Total liabilities	<u>4,347,818</u>	<u>5,274</u>	<u>4,353,092</u>
<b>Deferred Inflows of Resources</b>			
Taxes levied for future period	629,646	-	629,646
Total deferred inflows of resources	<u>629,646</u>	<u>-</u>	<u>629,646</u>
<b>Net Position</b>			
Net investment in capital assets	2,059,089	19,355	2,078,444
Restricted for:			
Capital Outlay	397,199	-	397,199
Special Education	135,503	-	135,503
Pension Fund	357,629	-	357,629
Bond Redemption	87,682	-	87,682
Capital Projects	1,308,443	-	1,308,443
Unrestricted	602,285	(5,611)	596,674
Total net position	<u>4,947,830</u>	<u>13,744</u>	<u>4,961,574</u>
	<u>\$ 9,925,294</u>	<u>\$ 19,018</u>	<u>\$ 9,944,312</u>

Warner School District 6-5  
Statement of Activities  
Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
<b>Primary Government</b>							
Governmental activities:							
Instruction	\$ 1,292,348	\$ 2,848	\$ 151,281	\$ -	\$ (1,138,219)	\$ -	\$ (1,138,219)
Support services	1,044,479	15,823	-	-	(1,028,656)	-	(1,028,656)
Community services	669	-	-	-	(669)	-	(669)
Nonprogrammed charges	1,637	-	-	-	(1,637)	-	(1,637)
*Interest on long-term debt	121,634	-	-	-	(121,634)	-	(121,634)
Cocurricular activities	139,109	27,923	-	-	(111,186)	-	(111,186)
Total governmental activities	<u>2,599,876</u>	<u>46,594</u>	<u>151,281</u>	<u>-</u>	<u>(2,402,001)</u>	<u>-</u>	<u>(2,402,001)</u>
Business-type activities:							
Food service	156,297	89,024	-	-	-	(67,273)	(67,273)
Other	28,780	22,046	-	-	-	(6,734)	(6,734)
Total business-type activities	<u>185,077</u>	<u>111,070</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(74,007)</u>	<u>(74,007)</u>
<b>Total primary government</b>	<u>\$ 2,784,953</u>	<u>\$ 157,664</u>	<u>\$ 151,281</u>	<u>\$ -</u>	<u>(2,402,001)</u>	<u>(74,007)</u>	<u>(2,476,008)</u>
<b>General Revenues</b>							
Taxes:							
Property taxes					1,240,769	-	1,240,769
Gross receipts taxes					35,204	-	35,204
Revenue from state sources:							
State aid					1,245,251	-	1,245,251
Other					3,947	776	4,723
Revenue from federal sources					47,010	56,576	103,586
Unrestricted investment earnings					17,781	10	17,791
Other general revenues					31,787	-	31,787
Miscellaneous					25,915	-	25,915
Transfers					(4,481)	4,481	-
Total general revenues and transfers					<u>2,643,183</u>	<u>61,843</u>	<u>2,705,026</u>
<b>Change in Net Position</b>					<u>241,182</u>	<u>(12,164)</u>	<u>229,018</u>
Net Position - Beginning					4,747,986	25,908	4,773,894
Adjustment to Net Position - Beginning for GASB 65					(41,338)	-	(41,338)
Net Position - Beginning, Restated					<u>4,706,648</u>	<u>25,908</u>	<u>4,732,556</u>
Net Position - Ending					<u>\$ 4,947,830</u>	<u>\$ 13,744</u>	<u>\$ 4,961,574</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.

Warner School District 6-5  
Balance Sheet – Governmental Funds  
June 30, 2014

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Fund #1	Bond Fund #2	Capital Projects Fund	Total Funds
<b>Assets</b>								
Cash and cash equivalents	\$ 642,605	\$ 426,466	\$ 160,415	\$ 19,141	\$ 46,332	\$ 60,672	\$ 2,001,118	\$ 3,356,749
Investments	140,877	-	-	338,488	-	-	-	479,365
108 Advance payments	2,000	-	-	-	-	-	-	2,000
110 Taxes receivable - current	233,377	150,218	63,843	-	69,917	48,989	-	566,344
112 Taxes receivable - delinquent	1,647	1,087	463	-	600	422	-	4,219
120 Accounts receivable, net	-	3,499	-	-	-	-	-	3,499
130 Due from other enterprise fund	4,681	-	-	-	-	-	-	4,681
140 Due from other government	47,124	6,522	-	-	-	-	-	53,646
	<u>\$ 1,072,311</u>	<u>\$ 587,792</u>	<u>\$ 224,721</u>	<u>\$ 357,629</u>	<u>\$ 116,849</u>	<u>\$ 110,083</u>	<u>\$ 2,001,118</u>	<u>\$ 4,470,503</u>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities</b>								
402 Accounts payable	\$ 16,193	\$ 14,077	\$ 1,301	\$ -	\$ -	\$ -	\$ 606,543	\$ 638,114
404 Contracts payable	123,144	-	10,706	-	-	-	-	133,850
406 Retainage payable	-	-	-	-	-	-	-	-
410 Due to trust and agency fund	-	515	-	-	-	-	86,132	86,132
450 Payroll deductions, withholdings and employer matching payable	57,122	-	5,184	-	-	-	-	515
	<u>196,459</u>	<u>14,592</u>	<u>17,191</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>692,675</u>	<u>920,917</u>
<b>Deferred Inflows of Resources</b>								
550 Unavailable revenue-other	-	6,522	-	-	-	-	-	6,522
551 Unavailable revenue-delinquent property taxes	1,647	1,087	463	-	600	422	-	4,219
551 Taxes levied for a future period	248,890	169,479	72,027	-	81,880	57,370	-	629,646
	<u>250,537</u>	<u>177,088</u>	<u>72,490</u>	<u>-</u>	<u>82,480</u>	<u>57,792</u>	<u>-</u>	<u>640,387</u>
<b>Fund Balances</b>								
720 Restricted for:								
Capital Outlay	-	396,112	-	-	-	-	-	396,112
Special Education	-	-	135,040	-	-	-	-	135,040
Pension	-	-	-	357,629	-	-	-	357,629
Debt Service	-	-	-	-	34,369	52,291	-	86,660
Capital Projects	-	-	-	-	-	-	1,308,443	1,308,443
750 Assigned to:								
Unemployment	22,223	-	-	-	-	-	-	22,223
760 Unassigned	603,092	-	-	-	-	-	-	603,092
	<u>625,315</u>	<u>396,112</u>	<u>135,040</u>	<u>357,629</u>	<u>34,369</u>	<u>52,291</u>	<u>1,308,443</u>	<u>2,909,199</u>
	<u>\$ 1,072,311</u>	<u>\$ 587,792</u>	<u>\$ 224,721</u>	<u>\$ 357,629</u>	<u>\$ 116,849</u>	<u>\$ 110,083</u>	<u>\$ 2,001,118</u>	<u>\$ 4,470,503</u>

Warner School District 6-5  
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
Year Ended June 30, 2014

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Total Fund Balances - Governmental Funds	\$ 2,909,199
Amounts Reported for Governmental Activities in the Statement of Net Position is Different Because:	
Capital assets used in governmental activities are not current financial resources and; therefore, are not reported in the funds.	5,454,791
Long-term liabilities, including bonds payable, OPEB obligations, and capital leases payable, are not due and payable in the current period and; therefore, are not reported in the funds.	(3,426,901)
Assets, such as delinquent taxes receivable and amounts due from other governments that are not available to pay for current period expenditures, are deferred in the funds.	<u>10,741</u>
Net Position - Governmental Funds	<u><u>\$ 4,947,830</u></u>

Warner School District 6-5  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2014

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund 1	Bond Redemption Fund 2	Capital Projects Fund	Total Governmental Funds
<b>Revenues</b>								
1000 Revenue from local sources:								
1100 Taxes								
1110 Ad valorem taxes	\$ 505,521	\$ 320,562	\$ 136,239	\$ -	\$ 156,221	\$ 115,534	\$ -	\$ 1,234,077
1120 Prior year's ad valorem taxes	1,381	725	287	22	451	-	-	2,866
1130 Tax deed revenue	-	-	-	-	-	176	-	176
1140 Utility taxes	35,204	-	-	-	-	-	-	35,204
1190 Penalties and interest on taxes	786	442	178	12	349	41	-	1,808
1300 Tuition and fees	2,848	-	-	-	-	-	-	2,848
1500 Earnings on investments and deposits	5,621	478	210	10,518	119	67	768	17,781
1700 Cocurricular activities								
1710 Admissions	24,000	-	-	-	-	-	-	24,000
1790 Other pupil activity income	3,923	-	-	-	-	-	-	3,923
1900 Other revenue from local sources								
1920 Contributions and donations	699	72,839	-	-	-	-	-	73,538
1970 Charges for services	14,974	-	849	-	-	-	-	15,823
1990 Other	10,406	-	-	-	-	-	-	10,406
2000 Revenue from intermediate sources								
2100 County sources								
2110 County apportionment	21,234	-	-	-	-	-	-	21,234
2200 Revenue in lieu of taxes	47	40	17	-	43	-	-	147
3000 Revenue from State sources								
3100 Grants-in-aid								
3110 Unrestricted grants-in-aid	1,245,251	-	-	-	-	-	-	1,245,251
3120 Restricted grants-in-aid	625	21,407	13,064	-	-	-	-	35,096
3900 Other state revenue	-	3,947	-	-	-	-	-	3,947
4000 Revenue from Federal sources								
4100 Grants-in-aid								
4150-4199 Restricted grants-in aid received from Federal government through the State	42,647	-	-	-	-	-	-	42,647
4900 Other Federal revenue	5,083	15,066	-	-	-	20,339	-	40,488
<b>Total revenues</b>	<b>1,920,250</b>	<b>435,506</b>	<b>150,844</b>	<b>10,552</b>	<b>157,183</b>	<b>136,157</b>	<b>768</b>	<b>2,811,260</b>

Warner School District 6-5  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2014

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund 1	Bond Redemption Fund 2	Capital Projects Fund	Total Governmental Funds
Expenditures								
1000 Instruction								
1100 Regular programs								
1110 Elementary	704,996	-	-	-	-	-	-	704,996
1130 High school	339,909	-	-	-	-	-	-	339,909
1200 Special programs								
1220 Programs for special education	-	-	97,311	-	-	-	-	97,311
1270 Educationally deprived	51,821	-	-	-	-	-	-	51,821
2000 Support services								
2100 Pupils								
2120 Guidance	43,671	-	-	-	-	-	-	43,671
2130 Health	1,200	-	-	-	-	-	-	1,200
2140 Psychological	-	-	3,247	-	-	-	-	3,247
2150 Speech pathology	-	-	6,765	-	-	-	-	6,765
2170 Student therapy services	-	-	4,323	-	-	-	-	4,323
2200 Support services - instructional staff								
2210 Improvement of instruction	1,606	-	-	-	-	-	-	1,606
2220 Educational median	78,642	-	-	-	-	-	-	78,642
2300 Support services - general administration								
2310 Board of education	30,254	-	-	-	-	-	-	30,254
2320 Executive administration	93,720	-	-	-	-	-	-	93,720
2400 Support services - school administration								
2410 Office of the principal	148,314	-	-	-	-	-	-	148,314
2490 Other	431	-	-	-	-	-	-	431
2500 Support services - business								
2520 Fiscal services	80,932	-	-	-	-	-	-	80,932
2530 Facilities acquisition and construction	-	123,928	-	-	-	-	-	123,928
2540 Operation and maintenance of plant	213,233	-	-	-	-	-	-	213,233
2550 Pupil transportation	98,517	648	-	-	-	-	-	99,165
2600 Support services - central								
2640 Staff	244	-	-	-	-	-	-	244
2700 Support services - special education								
2710 Administrative costs	-	-	8,558	-	-	-	-	8,558
2720 Speech/Language	-	-	15,893	-	-	-	-	15,893
2730 SPED transportation costs	-	-	851	-	-	-	-	851
2750 Other special education costs	-	-	2,266	-	-	-	-	2,266
3000 Community services								
3900 Other	669	-	-	-	-	-	-	669
4000 Nonprogrammed charges								
4400 Payments to state - unemployment	1,637	-	-	-	-	-	-	1,637

Warner School District 6-5  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2014

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund 1	Bond Redemption Fund 2	Capital Projects Fund	Total Governmental Funds
5000 Debt services	-	26,331	-	-	165,173	134,205	48,100	373,809
6000 Cocurricular activities								
6100 Male activities	47,076	-	-	-	-	-	-	47,076
6200 Female activities	41,144	-	-	-	-	-	-	41,144
6900 Combined activities	22,082	-	-	-	-	-	-	22,082
7500 Capital outlay	-	292,165	-	-	-	-	870,140	1,162,305
Total expenditures	<u>2,000,098</u>	<u>443,072</u>	<u>139,214</u>	<u>-</u>	<u>165,173</u>	<u>134,205</u>	<u>918,240</u>	<u>3,800,002</u>
Excess of Revenue over (under) Expenditures	<u>(79,848)</u>	<u>(7,566)</u>	<u>11,630</u>	<u>10,552</u>	<u>(7,990)</u>	<u>1,952</u>	<u>(917,472)</u>	<u>(988,742)</u>
Other Financing Sources (Uses)								
5120 General long-term debt issued	-	-	-	-	-	-	2,200,000	2,200,000
5123 Premium on bonds issued	-	-	-	-	-	-	25,915	25,915
8110 Transfers out	<u>(4,481)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,481)</u>
Total other financing sources (uses)	<u>(4,481)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,225,915</u>	<u>2,221,434</u>
Net Change in Fund Balances	<u>(84,329)</u>	<u>(7,566)</u>	<u>11,630</u>	<u>10,552</u>	<u>(7,990)</u>	<u>1,952</u>	<u>1,308,443</u>	<u>1,232,692</u>
Fund Balance - Beginning	<u>709,644</u>	<u>403,678</u>	<u>123,410</u>	<u>347,077</u>	<u>42,359</u>	<u>50,339</u>	<u>-</u>	<u>1,676,507</u>
Fund Balance - Ending	<u>\$ 625,315</u>	<u>\$ 396,112</u>	<u>\$ 135,040</u>	<u>\$ 357,629</u>	<u>\$ 34,369</u>	<u>\$ 52,291</u>	<u>\$ 1,308,443</u>	<u>\$ 2,909,199</u>

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

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Net Change in Fund Balances - Total Governmental Funds	\$ 1,232,692
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Governmental funds report capital outlays as expenditures, however; in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of \$203,504 was exceeded by capital outlays of \$1,162,305 in the current period.	958,801
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	240,000
Grant revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	6,522
Loss on disposal of capital assets is excluded in the governmental funds, however is recorded as an expenditure in the governmental wide statements.	(1,281)
Capital lease payments is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	3,989
The accrual of OPEB costs are not reflected in governmental funds, but the statement of activities reflects the change in this liability from one year to the next.	(1,383)
The issuance of long-term debt is an other financing source in the fund statements but an increase in long-term liabilities on the government wide statements.	(2,200,000)
The fund financial statement governmental fund property tax accruals differ from the government-wide statement property tax accruals in that the fund financial statements require the amounts to be "available".	1,842
Change in Net Position of Governmental Activities	<u style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 241,182</u>

Warner School District 6-5  
Statement of Net Position– Proprietary Funds  
June 30, 2014

	<u>Enterprise</u> <u>Food Service</u> <u>Fund</u>	<u>Other</u>	<u>Total</u>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 1,288	\$ -	\$ 1,288
170 Inventory of supplies	1,023	-	1,023
171 Inventory of stores purchased for resale	2,033	-	2,033
Total current assets	<u>4,344</u>	<u>-</u>	<u>4,344</u>
<b>200 Capital assets</b>			
204 Machinery and equipment - local funds	82,822	-	82,822
Less accumulated depreciation (credit)	<u>(63,467)</u>	<u>-</u>	<u>(63,467)</u>
Total noncurrent assets	<u>19,355</u>	<u>-</u>	<u>19,355</u>
	<u>\$ 23,699</u>	<u>\$ -</u>	<u>\$ 23,699</u>
<b>Liabilities</b>			
<b>400 Current liabilities</b>			
402 Accounts payable	\$ -	\$ 342	\$ 342
404 Contracts payable	3,292	-	3,292
410 Due to general fund	-	4,681	4,681
450 Payroll deductions, withholdings and employer matching payable	449	1,191	1,640
Total current liabilities	<u>3,741</u>	<u>6,214</u>	<u>9,955</u>
<b>Net Position</b>			
706 Net investment in capital assets	19,355	-	19,355
708 Unrestricted net position	<u>603</u>	<u>(6,214)</u>	<u>(5,611)</u>
Total net position	<u>19,958</u>	<u>(6,214)</u>	<u>13,744</u>
	<u>\$ 23,699</u>	<u>\$ -</u>	<u>\$ 23,699</u>

Warner School District 6-5  
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds  
Year Ended June 30, 2014

	Enterprise Food Service Fund	Other	Total
Operating Revenue			
Student tuition	\$ -	\$ 22,046	\$ 22,046
Food sales	89,024	-	89,024
Total operating revenue	89,024	22,046	111,070
Operating Expenses			
100 Salaries	43,460	21,385	64,845
200 Employee benefits	5,483	3,518	9,001
300 Purchased services	1,143	290	1,433
400 Supplies	4,203	3,587	7,790
461 Cost of sales - purchased	90,101	-	90,101
462 Cost of sales - donated	5,234	-	5,234
900 Depreciation	6,673	-	6,673
Total operating expenses	156,297	28,780	185,077
Operating Loss	(67,273)	(6,734)	(74,007)
Nonoperating Revenue			
Local sources:			
1510 Investment earnings	9	1	10
State sources:			
3810 Cash reimbursements	776	-	776
Federal sources:			
4810 Cash reimbursements	50,823	519	51,342
4820 Donated food	5,234	-	5,234
Total nonoperating revenue	56,842	520	57,362
Loss Before Contributions, Special Items, Extraordinary Items and Transfers	(10,431)	(6,214)	(16,645)
5110 Transfers in	-	4,481	4,481
Change in Net Position	(10,431)	(1,733)	(12,164)
Net Position - Beginning	30,389	(4,481)	25,908
Net Position - Ending	\$ 19,958	\$ (6,214)	\$ 13,744

Warner School District 6-5  
Statement of Cash Flows – Proprietary Funds  
Year Ended June 30, 2014

	Enterprise Food Service Fund	Other	Total
Cash Flows used for Operating Activities			
Cash receipts from customers	\$ 89,024	\$ 22,046	\$ 111,070
Cash payments to employees for services	(48,803)	(23,712)	(72,515)
Cash payments to suppliers of goods or services	(94,658)	(3,335)	(97,993)
Net Cash used for Operating Activities	(54,437)	(5,001)	(59,438)
Cash Flows from Noncapital Financing Activities			
Operating grants	51,600	519	52,119
Transfers in	-	4,481	4,481
Net Cash Flows from Noncapital Financing Activities	51,600	5,000	56,600
Cash Flows used for Capital and Related Financing Activities			
Purchase of capital assets	(1,675)	-	(1,675)
Net Cash used for Capital and Related Financing Activities	(1,675)	-	(1,675)
Cash Flows from Investing Activities			
Cash received for interest	9	1	10
Net Cash from Investing Activities	9	1	10
Net Change in Cash and Cash Equivalents	(4,503)	-	(4,503)
Cash and Cash Equivalents Beginning of Year	5,791	-	5,791
Cash and Cash Equivalents End of Year	\$ 1,288	\$ -	\$ 1,288
Reconciliation of Operating Loss to Net Cash used for Operating Activities			
Operating loss	\$ (67,273)	\$ (6,734)	\$ (74,007)
Adjustments to reconcile operating loss to net cash used for operating activities:			
Depreciation expense	6,673	-	6,673
Value of donated commodities used	5,234	-	5,234
Change in assets and liabilities:			
Inventories	789	-	789
Accounts and other payables	140	1,733	1,873
Net Cash used for Operating Activities	\$ (54,437)	\$ (5,001)	\$ (59,438)
Noncash Investing, Capital and Financing Activities			
Value of commodities received	\$ 5,234	\$ -	\$ -

Warner School District 6-5  
Statement of Fiduciary Net Position  
June 30, 2014

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	Agency Funds	Private- Purpose Trust Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 84,670	\$ -
Investments	-	3,066
Due from Capital Outlay Fund	515	-
	\$ 85,185	\$ 3,066
<b>Liabilities</b>		
Amounts held for others	\$ 85,185	\$ -
<b>Net Position</b>		
Held in trust for scholarships	-	3,066
	\$ 85,185	\$ 3,066

Warner School District 6-5  
Statement of Changes in Fiduciary Net Position  
Year Ended June 30, 2014

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	Private- Purpose Trust Funds
Additions	
Contributions and donations	\$ 800
Earnings from deposits and investments	<u>1</u>
Total additions	<u>801</u>
Deductions	
Trust deductions for scholarships	<u>1,800</u>
Total deductions	<u>1,800</u>
Change in Net Position	(999)
Net Position - Beginning	<u>4,065</u>
Net Position - Ending	<u><u>\$ 3,066</u></u>

## **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Warner School District 6-5 conform to generally accepted accounting principles applicable to government entities in the United States of America.

### **Financial Reporting Entity**

The reporting entity of Warner School District 6-5 (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.

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

### **Basis of Presentation**

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

### **Government-Wide Financial Statements**

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

## **Fund Financial Statements**

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

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

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

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

### **Governmental Funds**

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

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

Capital Projects Funds – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments).

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 Funds (1 and 2) - Funds 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. These are major funds.

### **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.

Other Fund (Driver's Education and Kids Care) – A fund used to record financial transactions related to driver's education and kids care operations. This fund is financed by student tuition charges. 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 statement 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 statement of activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

### **Fund Financial Statements**

All governmental funds 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.

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, 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 nonspendable fund balance amounts 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.

For governmental activities, construction-period interest is not capitalized, in accordance with USGAAP.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land*	All Land Values	N/A	N/A
Improvements	\$ 10,000	Straight-Line	20 years
Buildings	20,000	Straight-Line	50 years
Equipment	3,000	Straight-Line	5-20 years
Food service equipment	500	Straight-Line	5-12 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 financing lease obligations.

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.

### **Deferred Inflows of Resources**

The separate financial statement element noted as deferred inflows of resources represents an acquisition of net position that applies to a future period and therefore 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 in the statement of net position and governmental funds balance sheet. The governmental activities and governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

### **Program Revenues**

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

1. Charges for Services - These arise from charges to customers, applicants, or others who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services.
2. Program-Specific Operating Grants and 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 attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year. Approximately 50% is considered to be applied to finance the budget of the current fiscal year, and the remaining percentage (50%) is considered to be applied to finance the budget for the subsequent year. 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. Current year property taxes receivable which is not available as a resource that can be used to finance the current year's appropriations and; therefore, are not susceptible to accrual have been reported as deferred revenue in both fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period".

### **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 land values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

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

### **Cash and Cash Equivalents**

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

## **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 position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position - All other net position that does not meet the definition of "restricted" or "net investment in capital assets".

### **Fund Financial Statements**

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

### **Application of Net Position**

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

### **Rounding**

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

### **Fund Balance Classification Policies and Procedures**

The School District classifies governmental fund balance as follows:

- Nonspendable – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints. 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 government would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The government 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

### Recent Accounting Pronouncements

Beginning in fiscal year 2014, the School District 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. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenditures. As a result of early implementing this statement, the School District changed the classification of certain liabilities to deferred inflows. The School District also restated beginning net position to write-off bond issuance costs as required by this statement (see Note 13).

### Note 2 - Violations of Finance-Related Legal and Contractual Provisions

The School District is prohibited by statute from spending in excess of appropriated amounts at the fund level. The following represents the significant overdrafts of the expenditures compared to appropriations:

	Year Ended June 30, 2014
Capital Outlay Fund	\$ 123,572

These over expenditures were funded by greater than anticipated revenues.

**Note 3 - 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 as follows.

**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:

	<u>Book Balance</u>
Insured (FDIC/NCUA)	\$ 500,000
Uninsured, collateral jointly held by State's/School District's agent in the name of the State and the pledging financial institution	3,479,826
	<u>\$ 3,979,826</u>
The School District's carrying amount of deposits at June 30, 2014	<u>\$ 3,922,072</u>

Reconciliation of deposits to government-wide statement of net position:

Cash and cash equivalents	\$ 3,358,037
Add: Agency Fund cash (not included in government-wide statement of net assets)	84,670
Add: Investments	479,365
	<u>\$ 3,922,072</u>

## 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.

As of June 30, 2014, the School District had \$3,066 in the South Dakota Public Fund Investment Trust. The South Dakota Public Fund Investment Trust (SD FIT) is an unrated external investment pool created for South Dakota local government investing. It is regulated by a nine member board with representation from municipalities, school districts and counties.

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

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

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

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

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

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 fund making the investment.

## Note 4 - Receivables and Payables

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

**Note 5 - Changes in Capital Assets**

A summary of changes in capital assets for the fiscal year 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	\$ 23,428	\$ -	\$ -	\$ 23,428
Construction work in process	-	1,006,387	-	1,006,387
Total not being depreciated	<u>23,428</u>	<u>1,006,387</u>	<u>-</u>	<u>1,029,815</u>
Capital assets, being depreciated				
Improvements	651,401	50,122	32,716	668,807
Buildings	5,082,933	-	-	5,082,933
Machinery and equipment	781,777	100,140	113,261	768,656
Library books	118,666	5,657	1,285	123,038
Total being depreciated	<u>6,634,777</u>	<u>155,919</u>	<u>147,262</u>	<u>6,643,434</u>
Total accumulated depreciation	<u>2,160,931</u>	<u>203,504</u>	<u>145,977</u>	<u>2,218,458</u>
Total capital assets being depreciated, net	<u>4,473,846</u>	<u>(47,585)</u>	<u>1,285</u>	<u>4,424,976</u>
Governmental activity capital assets, net	<u>\$ 4,497,274</u>	<u>\$ 958,802</u>	<u>\$ 1,285</u>	<u>\$ 5,454,791</u>

Depreciation expense was charged to functions as follows:

Governmental Activities	
Instruction	\$ 87,461
Support services	87,236
Co-curricular activities	<u>28,807</u>
Total depreciation expense - governmental activities	<u>\$ 203,504</u>

Warner School District 6-5  
Notes to Financial Statements  
June 30, 2014

	Balance 06/30/13	Increases	Decreases	Balance 06/30/14
Business-Type Activities				
Capital assets, being depreciated				
Machinery and equipment	\$ 81,147	\$ 1,675	\$ -	\$ 82,822
Total being depreciated	81,147	1,675	-	82,822
Total accumulated depreciation	56,794	6,673	-	63,467
Total capital assets being depreciated, net	24,353	(4,998)	-	19,355
Business-type activity capital assets, net	<u>\$ 24,353</u>	<u>\$ (4,998)</u>	<u>\$ -</u>	<u>\$ 19,355</u>

The following summaries details related to the construction work in process amount in the schedule above:

	Incurred to Date	Estimated Cost to Complete	Estimated Total Cost
New gym and classrooms	\$ 1,006,387	\$ 1,163,171	\$ 2,169,558

Depreciation expense was charged to functions as follows:

Business-Type Activities	
Food service	<u>\$ 6,673</u>
Total depreciation expense - business-type activities	<u>\$ 6,673</u>

## Note 6 - Long-Term Liabilities

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

Purpose	Amounts Outstanding 6/30/2013	Issued	Retired	Amounts Outstanding 6/30/2014	Due in One Year
General Obligation Bonds - 2005	\$ 265,000	\$ -	\$ 155,000	\$ 110,000	\$ 110,000
General Obligation Bonds - 2009	1,160,000	-	85,000	1,075,000	90,000
Capital Outlay Certificates - 2014	-	2,200,000	-	2,200,000	-
Century Business Products Capital Lease	14,691	-	3,989	10,702	4,335
OPEB Obligation	29,816	9,569	8,186	31,199	-
	<u>\$ 1,469,507</u>	<u>\$ 2,209,569</u>	<u>\$ 252,175</u>	<u>\$ 3,426,901</u>	<u>\$ 204,335</u>

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

**General Obligation Bonds**

General Obligation Bonds Series 2005, Series 1997 was refunded on March 25, 2005 at a new principal balance of \$1.055M, semi-annual installments due January and July, interest rates range from of 2.25% to 3.45% for the first eight years, with an interest rate at 3.65% for the remaining three years, maturity dates - July 1, 2005 to July 1, 2015, paid by the Bond Redemption Fund 1. \$ 110,000

General Obligation Bonds Series 2009, interest range from 2% to 5.5%, maturity dates January 1, 2012 to January 1, 2025, paid by the Bond Redemption Fund 2. 1,075,000

**Capital Outlay Certificates**

Capital Outlay Certificates 2014, interest range from .06% to 4.5%, maturity dates January 1, 2016 to January 1, 2034, paid by the Capital Outlay Fund. 2,200,000

**Other Long-Term Liabilities**

Copier lease with Century Business Products, Inc., 8.314% interest rate, monthly payments of \$422, paid from Capital Outlay Fund. 10,702

\$ 3,395,702

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 - 2005		General Obligation - 2009		Capital Outlay Certificates - 2014		Century Business Products Capital Lease		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 110,000	\$ 4,014	\$ 90,000	\$ 23,821	\$ -	\$ 32,723	\$ 4,335	\$ 727	\$ 204,335	\$ 61,285
2016	-	-	90,000	45,393	95,000	65,445	4,709	353	189,709	111,191
2017	-	-	90,000	42,468	95,000	64,875	1,658	29	186,658	107,372
2018	-	-	95,000	38,643	95,000	64,305	-	-	190,000	102,948
2019	-	-	95,000	34,605	100,000	63,165	-	-	195,000	97,770
2020-2024	-	-	505,000	108,173	520,000	287,898	-	-	1,025,000	396,071
2025-2029	-	-	110,000	6,050	590,000	212,095	-	-	700,000	218,145
2030-2034	-	-	-	-	705,000	96,575	-	-	705,000	96,575
	<u>\$ 110,000</u>	<u>\$ 4,014</u>	<u>\$ 1,075,000</u>	<u>\$ 299,153</u>	<u>\$ 2,200,000</u>	<u>\$ 887,081</u>	<u>\$ 10,702</u>	<u>\$ 1,109</u>	<u>\$ 3,395,702</u>	<u>\$ 1,191,357</u>

**Note 7 - Restricted Net Position**

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

Purpose	Restricted By	Amount
Capital Outlay	Law	\$ 397,199
Special Education	Law	135,503
Pension Fund	Law	357,629
Bond Redemption	Debt Covenants	87,682
Capital Projects	Revenue Source	1,308,443
		<u><u>\$ 2,286,456</u></u>

**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 were \$79,048, \$78,654, and \$74,429, respectively, equal to the required contributions each year.

**Note 9 - Joint Ventures**

The School District participates in the following joint ventures:

Northern High Tech Modules Consortium, a multi-district cooperative service unit (co-op) formed for the purpose of providing technological equipment to the member school districts. The members of the co-op and their relative percentage participation in the co-op are as follows:

Edmunds Central School District No. 22-5	12.50%
Eureka School District No. 44-1	12.50%
Groton Area School District No. 6-3	12.50%
Leola School District No. 44-2	12.50%
Herreid School District No. 10-2	12.50%
Selby Area School District No. 62-5	12.50%
Ipswich School District No. 22-3	12.50%
Warner School District No. 6-5	12.50%

At June 30, 2014, the Northern High Tech Modules Consortium had total fund equity of \$131,342. Financial statements are available by contacting the Northern High Tech Modules Consortium.

North Central Special Education Coop, a multi-district cooperative service unit (co-op) formed for the purpose of providing special education services to the member school districts. All members participate equally, members of the co-op are as follows:

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

At June 30, 2014, the North Central Special Education Coop had total fund equity of \$497,251 and no long-term debt. Financial statements are available by contacting the North Central Special Education Coop.

### **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 period ended June 30, 2014, the School District managed its risks as follows:

#### **Employee Health Insurance**

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

#### **Liability Insurance**

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

#### **Worker's Compensation**

The 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 year 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 year 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 assigned equity in the General Fund in the amount of \$22,223 for the payment of future unemployment benefits.

During the year ended June 30, 2014, one claim for unemployment benefits was paid in the amount of \$1,636.

### Note 11 - Post-Employment Healthcare Plan

#### Plan Description

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

#### Funding Policy

The contribution requirements of plan members and the School District are established and may be amended during the negotiated agreement process between 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 Districts annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. 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:

Annual required contribution (ARC)	\$ 10,121
Interest on net OPEB obligation	969
Adjustment to annual required contribution	(1,521)
Annual OPEB cost	9,569
Contributions made	(8,186)
Increase (decrease) in net OPEB obligation	1,383
Net OPEB obligation - July 1, 2012	29,816
Net OPEB obligation - June 30, 2013	\$ 31,199

The School District's annual OPEB cost data and net OPEB obligation was, as of the latest actuarial valuation date, as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
2014	\$ 9,569	85.5%	\$ 31,199
2013	9,453	55.9%	29,816
2012	9,377	35.6%	25,650
2011	14,464	70.0%	19,614

### Funded Status and Funding Process

As of June, 30, 2012, the most recent actuarial valuation date, the plan's actuarial accrued liability (AAL) and the unfunded actuarial accrued liability (UAAL) for benefits was \$78,291. 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) and the UAAL to the covered payroll were not applicable.

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.

In the June 30, 2012 actuarial valuation, the unit credit actuarial cost method was used. The actuarial assumptions included a 3.25% discount rate assuming the School District will fund the retirement benefit on a pay-as-you-go basis. The valuation assumes that 25% of eligible retirees will actually participate in the retiree medical benefit and 25% of their spouses will participate. The annual healthcare cost trend rate of 8.5% initially, decreasing gradually until reaching an ultimate rate of 5.1%. The UAAL is being amortized as a level dollar amount over a thirty year time period.

**Note 12 - Litigation**

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

**Note 13 - Change in Accounting Principle**

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 has adopted GASB 65 starting with the year ended June 30, 2014. The provisions were applied retroactively to the beginning July 1, 2013 net position. GASB 65 requires the debt issuance costs to be recognized as an expense in the period incurred, not deferred and amortized over the life of the debt, as was previously done. GASB 65 also required the term “deferred” to be used only in conjunction with deferred outflows and deferred inflows of resources that are specified by GASB. To date, the only deferred inflows of resources that are applicable to the School District are specified in GASB Statement No. 65.

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, 2013 of \$41,338 for the government-wide balances to account for deferred debt issuance costs which are now expensed.

The following shows the effect of the change on beginning net position:

	Governmental Activities
Beginning net position	\$ 4,747,986
Cost of issuance	(41,338)
Restated beginning net position	\$ 4,706,648



Required Supplementary Information  
June 30, 2014

## Warner School District 6-5

Warner School District 6-5  
 Schedule of Funding Progress  
 Year Ended June 30, 2014

Actuarial 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	\$ -	\$ 75,079	\$ 75,079	0.00%	N/A	N/A
June 30, 2013	-	76,711	76,711	0.00%	N/A	N/A
June 30, 2012	-	78,291	78,291	0.00%	N/A	N/A

Warner School District 6-5  
 Budgetary Comparison Schedule – Budgetary Basis – General Fund  
 Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 452,164	\$ 452,164	\$ 505,521	\$ 53,357
1120 Prior year's ad valorem taxes	5,000	5,000	1,381	(3,619)
1140 Gross receipts taxes	30,000	30,000	35,204	5,204
1190 Penalties and interest on taxes	1,000	1,000	786	(214)
1300 Tuition and fees	-	-	2,848	2,848
1500 Earnings on investments and deposits	2,000	2,000	5,621	3,621
1700 Cocurricular activities:				
1710 Admissions	24,000	24,000	24,000	-
1790 Other pupil activity income	4,550	4,550	3,923	(627)
1900 Other revenue from local sources:				
1910 Rentals	1,000	1,000	-	(1,000)
1920 Contributions and donations	1,000	1,000	699	(301)
1970 Charges for services	12,000	12,000	14,974	2,974
1980 Day care services	15,000	15,000	-	(15,000)
1990 Other	12,000	12,000	10,406	(1,594)
2000 Revenue from intermediate sources				
2100 County sources:				
2110 County apportionment	25,000	25,000	21,234	(3,766)
2200 Revenue in lieu of taxes	-	-	47	47
2900 Other	1,000	1,000	-	(1,000)
3000 Revenue from State sources				
3100 Grants-in-aid:				
3110 Unrestricted grants-in-aid	1,248,894	1,248,894	1,245,251	(3,643)
3120 Restricted grants-in-aid	1,500	1,500	625	(875)
4000 Revenue from Federal sources				
4100 Grants-in-aid:				
4150-4199 Restricted grants-in-aid received from Federal government through the State	52,948	52,948	42,647	(10,301)
4900 Other Federal revenue	9,000	9,000	5,083	(3,917)
Total revenues	<u>1,898,056</u>	<u>1,898,056</u>	<u>1,920,250</u>	<u>22,194</u>
<b>Expenditures</b>				
1000 Instruction				
1100 Regular programs:				
1110 Elementary	680,850	680,850	704,996	(24,146)
1130 High school	358,000	358,000	339,909	18,091
1200 Special programs:				
1270 Educationally deprived	36,210	36,210	51,821	(15,611)

Warner School District 6-5  
 Budgetary Comparison Schedule – Budgetary Basis – General Fund  
 Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
2000 Support Services				
2100 Pupils:				
2120 Guidance	44,250	44,250	43,671	579
2130 Health	1,000	1,000	1,200	(200)
2200 Support services - instructional staff:				
2210 Improvement of instruction	1,500	1,500	1,606	(106)
2220 Educational media	98,000	98,000	78,642	19,358
2300 Support services - general: administration				
2310 Board of education	28,075	28,075	30,254	(2,179)
2320 Executive administration	97,100	97,100	93,720	3,380
2400 Support services - school administration:				
2410 Office of the principal	148,600	148,600	148,314	286
2490 Other	500	500	431	69
2500 Support services - business:				
2520 Fiscal services	83,500	83,500	80,932	2,568
2540 Operation and maintenance of plant	226,100	226,100	213,233	12,867
2550 Pupil transportation	101,100	101,100	98,517	2,583
2600 Support services - business:				
2640 Staff	750	750	244	506
3000 Community services				
3500 Custody and care of children	18,550	18,550	-	18,550
3900 Other	-	-	669	(669)
4000 Nonprogrammed charges				
4400 Payments to state - unemployment	-	-	1,637	(1,637)
6000 Cocurricular activities				
6100 Male activities	41,900	41,900	47,076	(5,176)
6200 Female activities	38,800	38,800	41,144	(2,344)
6900 Combined activities	22,450	22,450	22,082	368
7000 Contingencies	30,000	30,000	-	30,000
Total expenditures	<u>2,057,235</u>	<u>2,057,235</u>	<u>2,000,098</u>	<u>57,137</u>
Excess of Revenue over (under) Expenditures	<u>(159,179)</u>	<u>(159,179)</u>	<u>(79,848)</u>	<u>79,331</u>
Other Financing Sources (Uses)				
8110 Transfers out	<u>(15,000)</u>	<u>(15,000)</u>	<u>(4,481)</u>	<u>10,519</u>
Total other financing sources (uses)	<u>(15,000)</u>	<u>(15,000)</u>	<u>(4,481)</u>	<u>10,519</u>
Net Change in Fund Balances	(174,179)	(174,179)	(84,329)	89,850
Fund Balance - Beginning	<u>709,644</u>	<u>709,644</u>	<u>709,644</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 535,465</u>	<u>\$ 535,465</u>	<u>\$ 625,315</u>	<u>\$ 89,850</u>

Warner School District 6-5  
 Budgetary Comparison Schedule – Budgetary Basis – Capital Outlay Fund  
 Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 290,000	\$ 290,000	\$ 320,562	\$ 30,562
1120 Prior year's ad valorem taxes	1,000	1,000	725	(275)
1190 Penalties and interest on taxes	500	500	442	(58)
1500 Earnings on investments and deposits	500	500	478	(22)
1900 Other revenue and local sources:				
1920 Contribution and donations	-	-	72,839	72,839
2000 Revenue from intermediate sources				
2110 County Apportionment				
2200 Revenue in Lieu of Taxes	-	-	40	40
3000 Revenue from State sources				
3100 Grants-in-aid	-	-	21,407	21,407
3900 Other State revenue	-	-	3,947	3,947
4000 Revenue from Federal sources				
4900 Other Federal revenue	10,000	10,000	15,066	5,066
	<u>302,000</u>	<u>302,000</u>	<u>435,506</u>	<u>133,506</u>
<b>Total revenues</b>				
<b>Expenditures</b>				
2000 Support services				
2200 Support services - instructional staff				
2220 Educational media	3,000	3,000	5,657	(2,657)
2500 Support services - business:				
2530 Facilities acquisition and construction	210,000	210,000	326,391	(116,391)
2540 Operation and maintenance of plant	15,000	15,000	5,495	9,505
2550 Pupil transportation	91,500	91,500	79,198	12,302
5000 Debt services	-	-	26,331	(26,331)
	<u>319,500</u>	<u>319,500</u>	<u>443,072</u>	<u>(123,572)</u>
<b>Total expenditures</b>				
<b>Net Change in Fund Balances</b>	(17,500)	(17,500)	(7,566)	9,934
<b>Fund Balance - Beginning</b>	403,678	403,678	403,678	-
<b>Fund Balance - Ending</b>	<u>\$ 386,178</u>	<u>\$ 386,178</u>	<u>\$ 396,112</u>	<u>\$ 9,934</u>

Warner School District 6-5  
 Budgetary Comparison Schedule – Budgetary Basis – Special Education Fund  
 Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 123,218	\$ 123,218	\$ 136,239	\$ 13,021
1120 Prior year's ad valorem taxes	600	600	287	(313)
1190 Penalties and interest on taxes	200	200	178	(22)
1500 Earnings on investments and deposits	500	500	210	(290)
1900 Other revenue from local sources:				
1970 Charges for services	700	700	849	149
2000 Revenue from intermediate sources				
2200 Revenue in lieu of taxes	-	-	17	17
3000 Revenue from State sources				
3100 Grants-in-aid:				
3120 Restricted grants-in-aid	49,000	49,000	13,064	(35,936)
Total revenues	<u>174,218</u>	<u>174,218</u>	<u>150,844</u>	<u>(23,374)</u>
<b>Expenditures</b>				
1000 Instruction				
1200 Special programs:				
1220 Programs for special education	108,718	108,718	97,311	11,407
2000 Support services				
2100 Pupils:				
2140 Psychological	3,247	3,247	3,247	-
2150 Speech pathology	6,765	6,765	6,765	-
2170 Student therapy services	11,000	11,000	4,323	6,677
2700 Support services - special education:				
2710 Administrative costs	10,040	10,040	8,558	1,482
2720 Speech/language	19,620	19,620	15,893	3,727
2730 Transportation costs	1,000	1,000	851	149
2740 Mileage to parents	2,090	2,090	-	2,090
2750 Other special education costs	-	-	2,266	(2,266)
Total expenditures	<u>162,480</u>	<u>162,480</u>	<u>139,214</u>	<u>23,266</u>
Net Change in Fund Balances	11,738	11,738	11,630	(108)
Fund Balance - Beginning	<u>123,410</u>	<u>123,410</u>	<u>123,410</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 135,148</u>	<u>\$ 135,148</u>	<u>\$ 135,040</u>	<u>\$ (108)</u>

Warner School District 6-5  
 Budgetary Comparison Schedule – Budgetary Basis – Pension Fund  
 Year Ended June 30, 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	\$ -	\$ -	\$ 22	\$ 22
1190 Penalties and interest on taxes	-	-	12	12
1500 Earnings on investments and deposits	<u>75</u>	<u>75</u>	<u>10,518</u>	<u>10,443</u>
Total revenues	<u>75</u>	<u>75</u>	<u>10,552</u>	<u>10,477</u>
Expenditures				
4000 Nonprogrammed charges	-	-	-	-
4500 Early retirement payments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	75	75	10,552	10,477
Fund Balance - Beginning	<u>347,077</u>	<u>347,077</u>	<u>347,077</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 347,152</u>	<u>\$ 347,152</u>	<u>\$ 357,629</u>	<u>\$ 10,477</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 statement 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 School 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  
Warner School District 6-5  
Warner, 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 Warner School District 6-5 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Warner School District 6-5's basic financial statements, and have issued our report thereon dated December 1, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Warner School District 6-5'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 Warner School District 6-5's internal control. Accordingly, we do not express an opinion on the effectiveness of Warner School District 6-5'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 a 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 in the auditor's comments as item 2014-A, 2014-B and 2014-C 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 Warner School District 6-5'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**

Warner School District 6-5's response to the findings identified in our audit is described in the accompanying auditor's comments. Warner School District 6-5'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. However, 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 1, 2014

## **Status of Prior Audit Recommendations**

### **Finding 2013-1 Preparation of Financial Statements and Footnotes, and Material Proposed Adjustments to the Financial Statements, Including a Restatement**

Warner School District 6-5 does not have an internal control system designed to provide for the preparation of the financial statements being audited, including required footnotes and disclosures and all necessary material audit adjustments, in accordance with generally accepted accounting principles.

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

## **Current Audit Findings and Recommendations**

### **Finding 2014-A - Preparation of Financial Statements and Footnotes, and Material Proposed Adjustments to the Financial Statements, Including a Restatement**

Condition: Warner School District 6-5 does not have an internal control system designed to provide for the preparation of the financial statements being audited, including required footnotes and disclosures and all necessary material audit adjustments, in accordance with generally accepted accounting principles.

Criteria: An organization's internal control structure should provide for the recording of all necessary material adjustments and the preparation of financial statements and footnotes in accordance with generally accepted accounting principles.

Cause: The School District does not have adequate staff trained to prepare the financial statements and footnotes.

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

Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response: Management and the School Board will review for propriety the draft financial statements and footnotes prepared by the auditor and review all recommended audit adjusting entries proposed by the auditor. Due to the School District's size, we will accept the risk associated with this condition based on cost and other considerations.

### **Finding 2014-B Lack of Segregation of Duties**

Condition: Warner School District 6-5 has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in expenditures and payroll functions because of a lack of segregation of duties. In addition, the Business Manager is allowed to use both signature stamps to provide the required dual signatures on checks as required by South Dakota Codified Law.

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. Included in that control process is the use of dual signatures so that the person recording disbursements of the district, does not have the ability to make those disbursements without oversight.

Cause: The School District has insufficient number of staff to adequately separate duties in all areas and has not maintained adequate control over the use of the signature stamps.

Effect: This condition increases the risk that fraud or errors might occur and not be detected 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. In addition, we would recommend that the second signature stamp be under the control and use of the School Board President.

Management's Response: Management and the School Board will review their procedures related to the control and use of the signature stamp and accepts the risks associated with lack of segregation of duties in the School District.

#### **Finding 2014-C – Over-Expending Capital Outlay Budget**

Condition: The total expenditures in the capital outlay fund exceeded the amount budgeted for the year ended June 30, 2014.

Criteria: Warner School District 6-5 is prohibited by statute from spending in excess of appropriated amounts at the fund level. The School Board has the authority to amend the original budget to realign funds or release additional funds for spending; however, such spending should not occur until approval of such amendments has taken place.

Cause: There is currently no system control in place to prevent unauthorized over-expenditure of budgeted amounts.

Effect: This condition violates state statute and does not allow for the budgeting process control to be effective.

Recommendation: It is our recommendation that the School Board and management consider the necessary procedures that would allow for appropriate amendments to all fund budgets prior to excess expenditures being made.

Management Response: Management and the School Board will review their procedures related to the budgeting process and subsequent budget amendments in order to ensure state law regarding the fund budgets is not violated in the future.

**Findings Relating to the Financial Statements**

**2013-1 - Preparation of financial statements**

Status: This prior year finding has been restated as 2014-A.