

**EMERY SCHOOL DISTRICT NO. 30-2  
OF HANSON COUNTY**

**AUDIT REPORT**

FISCAL YEAR JULY 1, 2009, TO JUNE 30, 2010

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

EMERY SCHOOL DISTRICT NO. 30-2  
SCHOOL DISTRICT OFFICIALS  
JUNE 30, 2010

BOARD MEMBERS:

James Hanssen – President  
Bruce Terveen – Vice-President  
John G. Janssen  
Terry Hanssen  
Daryl Terveen

SUPERINTENDENT:

Jason Bailey

BUSINESS MANAGER:

Lori Jansen

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**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**

School Board  
Emery School District No. 30-2  
Hanson County, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Emery School District No. 30-2, South Dakota (School District), as of June 30, 2010, and for the year then ended which collectively comprise the School District's basic financial statements and have issued our report thereon dated September 27, 2010. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control over financial reporting 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as item 2010-01.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School District's financial statements are free of 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*.

Emery School District's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings. We did not audit the School District's response and, accordingly, we express no opinion on it.

We also noted certain additional matters that we have reported to the management of the School District in a separate communication dated September 27, 2010.

This report is intended solely for the information and use of the South Dakota Legislature, state granting agencies, and the governing board and management of the Emery School District No. 30-2, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. 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.



Schoenfish & Co., Inc.  
Certified Public Accountants  
September 27, 2010

*Schoenfish & Co., Inc.*

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EMERY SCHOOL DISTRICT NO. 30-2  
SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR OTHER AUDIT FINDINGS:

Finding Number 2009-01:

A significant deficiency and material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This comment has not been corrected and is restated as current audit finding number 2010-01.

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EMERY SCHOOL DISTRICT NO. 30-2  
SCHEDULE OF CURRENT AUDIT FINDINGS

CURRENT AUDIT FINDINGS:

Internal Control – Related Finding – Material Weakness:

Finding Number 2010-01:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This is the eighth consecutive audit in which a similar deficiency has been reported.

Criteria:

Proper segregation of duties results in increased reliability of reported financial data and decreased potential for the loss of public assets.

Condition:

A limited number of employees process all revenue transactions from beginning to end. They also receive money, issue receipts, record receipts, post receipts in the accounting records, prepare bank deposits, reconcile bank statements, and prepare financial statements.

Effect:

As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

Recommendation:

1. We recommend that the Emery School District officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever, and wherever, possible and practical.

Management's Response:

The Emery School District Board President, James Hanssen, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Emery School District, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are attempting to provide compensating controls.

CLOSING CONFERENCE

The audit was discussed with the superintendent and the business manager during the course of the audit on September 27, 2010.

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INDEPENDENT AUDITOR'S REPORT

School Board  
Emery School District No. 30-2  
Hanson County, South Dakota

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 Emery School District No. 30-2, Hanson County, South Dakota, as of June 30, 2010, and for the year then ended, which collectively comprise the School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Emery School District's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

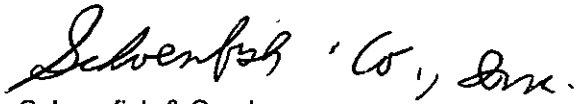
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Emery School District No. 30-2 as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2010, on our consideration of Emery School District's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Budgetary Comparison Schedules on pages 7 through 17 and 45 through 49 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary



information. However, we did not audit the information and express no opinion on it. As a result of such limited procedures, we believe that the Management's Discussion and Analysis is not in conformity with guidelines established by the Governmental Accounting Standards Board because the information presented is not confined to the topics discussed in Section 2200.109 of Codification of Governmental Accounting and Financial Reporting Standards. One of the more significant departures is the Budgetary Highlights section is not limited to the General Fund.



Schoenfish & Co., Inc.  
Certified Public Accountants  
September 27, 2010

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**Emery School District #30-2**  
**Management's Discussion & Analysis**  
**Fiscal Year 2009-2010**

This Management's Discussion & Analysis is an overview of the Emery School District's financial performance during the fiscal year ended on June 30, 2010. The intent of this discussion and analysis is to review the school district's financial performance as a whole; please review the notes to the financial statements and the financial statements to enhance your understanding of the school district's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Government Accounting Standards Board (GASB), in their statement No. 34 Basic Financial Statements and Managements' Discussion and Analysis, for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is presented to allow for a higher level of analysis.

**FINANCIAL HIGHLIGHTS**

During the fiscal year ended June 30, 2010, the school district's net assets increased by \$173,864, from \$2,125,179 to \$2,299,041. Key financial highlights are as follows:

The total cost of the Emery School District's programs decreased by 2.9% overall, from \$1,945,427 to \$1,889,060. This percentage reflects the cost savings to the district from sharing staff with other school districts and a concerted effort by the school district administration to operate at a higher level of efficiency.

The school district paid off \$100,000 in capital outlay certificate principal and \$1,981 in interest payments during the 2009-2010 school year.

GASB 34 requires school districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net assets.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The school district's annual report consists of three parts:

1. The Management's Discussion and Analysis
2. The Basic Financial Statements
3. Required Supplementary Information.

The basic financial statements include two kinds of statements that present different views of the school.

- The Statement of Net Assets and Statement of Activities are government-wide financial statements that provide both long-term and short-term information about the Emery School District's overall financial status.

- The remaining statements are fund financial statements that focus on individual parts of the school government, reporting the Emery School District's financial operation in greater detail than the government-wide statements.

Governmental funds statements tell how general government services were financed in the short-term, as well as what remains for future spending.

Proprietary fund statements offer short- and long-term financial information about the activities that the school operates like a business. The only proprietary fund operated by the school is the Food Service Fund.

Fiduciary fund statements provide information about the financial relationships-like student organizations, in which the school acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include Notes to the Financial Statements which explain some of the information in the financial statements and provide additional information disclosures. These disclosures allow the statement users to be informed of the school district's financial activities and overall financial position. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements some of the information in the financial statements and provide additional information disclosures. These disclosures allow the statement users to be informed of the school district's financial activities and overall financial position.

**Figure A-1**  
**Required Components of the Emery School District's Financial Report**

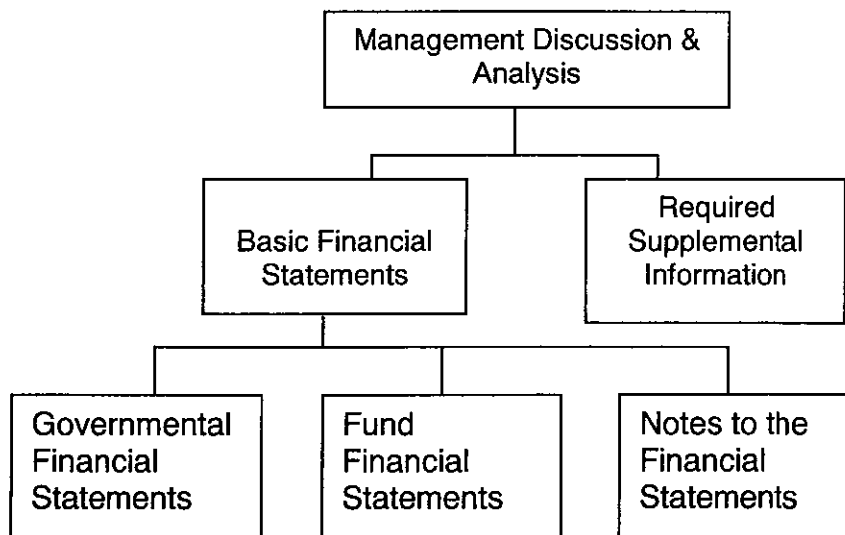


Figure A-2 summarizes the major components of the School district's financial statements, including the portion of the School government they cover and the types of information they contain. The remainder of the overview section of the Management's Discussion and Analysis explains the structure and contents of each of the statements.

**Figure A-2**  
**Major Features of Emery School's Government Wide and Fund Financial Statements**

	<b>Government-wide Statements</b>	<b>Fund Financial Statements</b>		
		<b>Governmental</b>	<b>Proprietary-Enterprise</b>	<b>Fiduciary</b>
<b>Scope</b>	Entire School Government (except Fiduciary Funds)	Consists of programs, which are not proprietary or fiduciary, such as elementary & high school education programs.	Activities the School operates similar to private businesses, the food service operation.	Assets held by the District on behalf of someone else. Students & other organizations that have funds on Deposit with the District are reported here.
<b>Required Financial Statements</b>	Statement of Net Assets and . Statement of Activities.	Balance Sheet, Statement of Revenues, Expenditures and Change in Fund Balances.	Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets, Statement of Cash Flow.	Statement of Fiduciary Net Assets
<b>Basis of Accounting &amp; Measurement</b>	Accrual Accounting. Economic resources focus.	Modified accrual accounting & current financial resources focus.	Accrual Accounting. Economic resources focus.	Accrual Accounting. Economic resources focus.
<b>Type of Asset/Liability Information</b>	All assets and liabilities, both financial land capital, and short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included.	All assets and liabilities, both financial and capital, and short-term and long-term.	All assets and liabilities, both short-term and long term: the school's funds do not currently contain capital assets, although they can.
<b>Type of Inflow/Outflow Information</b>	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon at end the end of the year,	All revenues and Expenses during year, regardless of when cash is received or paid.	All revenues and expenses during year, regardless of when cash is received or paid.

### **Government-wide Statements**

The government-wide statements report information about the school district, as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received.

The two government-wide statements report the Emery School District's net assets and how they have changed. Net assets can be defined as the difference between a school district's assets and its liabilities. A comparison of net assets can be utilized to measure the school's financial health or position.

- Increases or decreases in the school's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the school district, you would need to consider additional non-financial factors such as changes in the Emery School District's property tax base and changes in the state aid funding formula, received from the State of South Dakota.

In the government-wide financial statements of the school district, the district's activities are reported in two categories:

**Governmental Activities** - This category includes the school districts' basic instructional services, such as elementary and high school educational programs, support services such as the guidance counselor, executive administration, the board of education, fiscal services, debt service payments, extra curricular activities such as sports, drama, and music, and capital equipment purchases. Property taxes, state aid, state grants, federal grants, and interest earnings finance most of these activities.

**Business-Type Activities** - The school charges a fee to students to help cover the costs of providing school lunch, to all students. The Food Service Fund is the only business-type activity of the school district.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the school district's most significant funds – not the school as a whole. Funds are accounting devices that the school uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds, such as the General Fund, Capital Outlay Fund, Special Education Fund, and Pension Fund, which the school district maintains.
- The Emery School Board establishes other funds to control and manage money for particular purposes

There are three kinds of funds within the Emery School District financial structure:

- *Governmental Funds* – Most of the school's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the school's programs.

Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.

- *Proprietary Funds* – Services for which the school charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. School districts have historically operated as enterprise funds using the same basis of accounting as business-type activities; therefore, these statements will essentially match the information provided in the statement for the district, as a whole. The proprietary funds maintained by the Emery School District include:

1. Food Service Fund

- *Fiduciary Funds* – The school is the trustee, or fiduciary, for various external and internal parties. The School is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the school's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the school's government-wide financial statements because the school cannot use these assets to finance its operations.

### **Financial Analysis of the Emery School District As A Whole:**

The Statement of Net Assets reports all financial and capital resources as assets and liabilities in order of their relative liquidity. In reviewing Table A-1, you can see the percentage change in current year and prior year's assets, liabilities and changes in net assets for fiscal year 2008-2009. The difference between the school's assets and liabilities represents its net assets. The Emery School District's net assets from governmental activities increased by \$89,610 the direct result of increased revenue received and a stronger focus by management and the board of education to strive for optimal efficiency within the school district.

Net assets from business-type activities increased by \$4,913. This increase was the result of an increase in meal prices and a transfer in of \$7,274 from the General Fund.

### **FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE**

#### **Net Assets**

The Emery School District's combined net assets increased as follows:

**Table A-1**  
**Emery School District No. 30-2**  
**Statement of Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2009	2010	2009	2010	2009	2010
Current & Other Assets	1,436,783	1,482,648	13,730	12,682	1,450,513	1,495,330
Capital Assets, Net of Depr.	1,272,530	1,261,990	7,945	6,990	1,280,475	1,268,980
<b>Total Assets</b>	<b>2,709,313</b>	<b>2,744,638</b>	<b>21,675</b>	<b>19,672</b>	<b>2,730,988</b>	<b>2,764,310</b>
Long-Term Debt Outstanding	100,000				100,000	-
Other Liabilities	499,701	459,384	6,108	5,885	505,809	465,269
<b>Total Liabilities</b>	<b>599,701</b>	<b>459,384</b>	<b>6,108</b>	<b>5,885</b>	<b>605,809</b>	<b>465,269</b>
<b>Net Assets, Invested in Capital</b>						
Assets, Net of Related Debt	1,172,530	1,261,990	7,945	6,990	1,180,475	1,268,980
Restricted	310,371	290,212	7,622	6,797	317,993	297,009
Unrestricted	626,711	733,052			626,711	733,052
<b>Total Net Assets</b>	<b>2,109,612</b>	<b>2,285,254</b>	<b>15,567</b>	<b>13,787</b>	<b>2,125,179</b>	<b>2,299,041</b>
Beginning Net Assets	2,020,002	2,109,612	10,653	15,567	2,030,655	2,125,179
Change in Net Assets	89,610	175,642	4,914	(1,780)	94,524	173,862
Percentage of Change in Net Assets	4.44%	8.33%	46.13%	11.44%	4.66%	8.19%

The Statement of Net Assets provides a district-wide perspective. It is based on a full accrual basis of accounting. There was an increase in cash and cash equivalents and a decrease in long-term debt outstanding, reflecting a \$173,862 increase in net assets.

The Statement of Net Assets reports all financial and capital resources, as assets and liabilities in order of their relative liquidity. In reviewing Table A-1, you can see the change in current year and prior year's assets, liabilities, and changes in net assets. The liabilities with average maturities are reported in two components – the amount due within one year and the amount due in more than one year. The long term liabilities, such as capital outlay certificates, are reported on the Statement of Net Assets. These certificates were paid off in 2009-2010. The difference between the school's assets and liabilities represent its net assets. The positive change in net assets resulted from an increase in current assets, due to the sharing of services and a concentrated effort to reduce the school district's financial debt obligations.

### **Change In Net Assets**

The Emery School District's Net Assets from Governmental Activities, increased by \$175,642 in fiscal year 2009-2010.

The District's governmental activities revenues totaled \$1,977,984 for the year ended June 30, 2010. Property Tax Revenue increased from \$716,085 to \$771,554 in 2010, of which \$100,000 is related to the receipt of Property Tax Opt Out dollars. State Revenue decreased by 2.2%, or \$16,016. The state aid, which the District received during the 2009-2010 school year, is a reflection of the District's enrollment from the 2008-2009 school year. Investment earnings decreased \$7,087, or 52%, due to a weakness of interest rates within the banking industry.

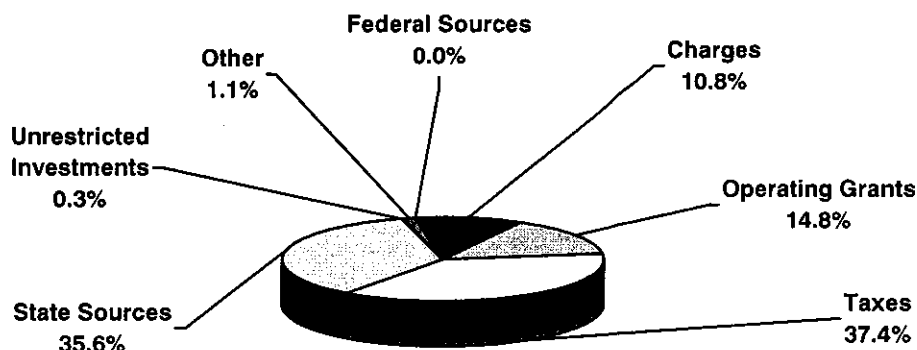
The General Fund Tax Levies were adjusted due to the Cutler-Gabriel Bill, which is used to keep the state and the local portion of the ad valorem taxes in proportion. The school board voted with the Property Tax Opt Out in the General Fund, to lower the levy in the Capital Outlay Fund from \$3.00 to \$2.00 per thousand. All other changes in tax revenue resulted from increases in the assessed valuations of property within the district.

In recent years, the Food Service has required an annual transfer from the General Fund in June of each fiscal year, to subsidize the operation of the program. Although the school board would like the program to be self-supporting, they also feel the price of lunch needs to be affordable for the families with the school district. The transfer from the General Fund to the Food Service Fund was \$3,500 during the fiscal year 2009-2010. The overall net assets from business-type activities decreased by \$1,779 this year.

### **Revenue Analysis**

Revenue received by the Emery School District for fiscal year 2009-2010 totaled \$2,062,923. (See Table A-2.) The School District's primary revenue sources are property taxes, which represents 37% of total revenues, and state sources, which is 36% of total revenue. See Figure A-3 for a pie chart of the District's revenues for fiscal year 2009-2010.

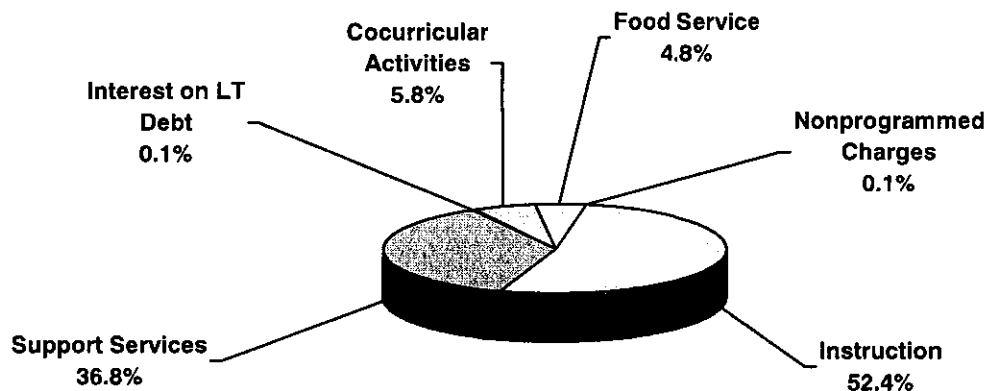
**Figure A-3 Emery School  
Sources of Revenue for Fiscal Year 2010**



### Expenditure Analysis

For Fiscal Year 2009-2010, \$1,889,060 in governmental and business-type program expenses were incurred. Governmental Activities costs decreased \$54,317 from \$1,853,159 in fiscal year 2008-2009 to \$1,798,842 in fiscal year 2009-2010. Fifty-two percent (52%) of the District's expenses were for instruction; 37% for support services; 6% for co-curricular activities; and 0.1% for the payment of long-term debt. (See Figure A-4 below for functional expenses for fiscal year 2009-2010.)

**Figure A-4 Emery School  
Functional Expenses for Fiscal Year 2010**





The Emery School District will consolidate with the Bridgewater School District on July 1, 2010. The two school districts have been sharing expenses through collaboration over the last five years. The new school district will face increasingly higher costs in the future, due to the escalating costs of ongoing professional development, health insurance, and property insurance. The SD Legislature provided no additional funding to K-12 Education during the 2009-2010 school year.

Due to an aging instructor population, the nation is facing higher demand and a lower number of students entering the field of education. School districts will have to pay more competitive salaries, in the future, to recruit and keep quality teachers within their school districts.

Table A-2 compares the financial operations of the school district's governmental and business-type activities, for Fiscal Years 2008-2009 and 2009-2010.

Table A-2  
Emery School District 30-2  
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2009	2010	2009	2010	2009	2010
Program Revenues:						
Charges for Services	165,157	175,213	51,020	46,784	216,177	221,997
Operating Grants & Cont.	283,630	267,211	38,888	38,155	322,518	305,366
General Revenues:						
Taxes	716,085	771,554	-	-	716,085	771,554
State Sources	750,268	734,252	-	-	750,268	734,252
Federal Sources	-	937	-	-	-	937
Unrestricted Investments	13,839	6,752	-	-	13,839	6,752
Other General	21,064	22,065	-	-	21,064	22,065
Total Revenue	<u>1,950,043</u>	<u>1,977,984</u>	<u>89,908</u>	<u>84,939</u>	<u>2,039,951</u>	<u>2,062,923</u>
Expenditures:						
Instruction	1,062,613	990,000	-	-	1,062,613	990,000
Support Services	679,997	696,180	-	-	679,997	696,180
Nonprogrammed Charges	-	1,138	-	-	-	1,138
Interest on LT Debt	6,219	1,981	-	-	6,219	1,981
Cocurricular Activities	104,330	109,543	-	-	104,330	109,543
Food Service	-	-	92,268	90,218	92,268	90,218
Total Expenditures	<u>1,853,159</u>	<u>1,798,842</u>	<u>92,268</u>	<u>90,218</u>	<u>1,945,427</u>	<u>1,889,060</u>
Change in Net Assets before Transfers	<u>96,884</u>	<u>179,142</u>	<u>(2,360)</u>	<u>(5,279)</u>	<u>94,524</u>	<u>173,863</u>
Transfers	<u>(7,274)</u>	<u>(3,500)</u>	<u>7,274</u>	<u>3,500</u>	<u>-</u>	<u>-</u>
Change in Net Assets	<u>89,610</u>	<u>175,642</u>	<u>4,914</u>	<u>(1,779)</u>	<u>94,524</u>	<u>173,863</u>
Net Assets - Ending	<u>2,109,612</u>	<u>2,285,254</u>	<u>15,566</u>	<u>13,787</u>	<u>2,125,178</u>	<u>2,299,041</u>

## GOVERNMENTAL ACTIVITIES

Revenues of the governmental activities increased by \$27,941 or approximately 1.4% due to the following factors:

- Property Tax Revenue increased \$55,469 in 2009-2010 due in part to opt-out dollars the School District received.
- Expenditures decreased by 2.9%, due to the collaborative effort to share expenses with the Bridgewater School District. There is also an emphasis by the administration on fiscal responsibility and accountability for expenditures at the department level.

## BUSINESS-TYPE ACTIVITIES

Revenues of the school's business-type activities (Food Service) decreased by approximately \$4,969. Although there were increased costs due to annual increases in salaries and wages, the rising cost of purchasing food, and freight charges, the Food Service expenses decreased by \$2,050. The School District is careful to utilize government commodities offered by the state government, to reduce overall food service costs.

## BUDGETARY HIGHLIGHTS

The following are the variances favorable/(unfavorable) in Budgeted Revenue and Expenditures for fiscal year 2009-2010.

	<u>Budgeted Revenue</u>	<u>Budgeted Expenditures</u>
General Fund	(\$ 3,515)	\$183,435
Capital Outlay Fund	(\$32,069)	\$ 79,309
Special Education Fund	\$ 2,300	\$ 19,678
Pension Fund	\$ 999	\$ 23,862

Over the course of the school year, the school board revised the school district's budget as follows:

	<u>Fiscal Year 2009-2010</u>	<u>Amendment</u>	<u>Total Budget</u>
General Fund	\$ 1,605,555	\$ 19,274	\$1,624,829
Capital Outlay Fund	\$ 253,032	\$ 89,506	\$ 263,229
Special Ed Fund	\$ 203,356	\$ 0	\$ 203,356
Pension Fund	\$ 23,862	\$ 0	\$ 23,862

## CAPITAL ASSET ADMINISTRATION

By the end of 2009-2010 fiscal year, the School District's capital assets (net of depreciation) had decreased from \$1,272,530 to \$1,261,990. The School District has invested in a broad range of capital assets, including, land, buildings, various machinery and equipment. (See Table A-3).

**Table A-3**  
**Emery School District No 30-2 - Capital Assets**  
**(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2009	2010	2009	2010	2009-2010	2009-2010
Land	\$ 12,376	\$ 12,376			\$ -	0.00%
Buildings	1,197,968	1,196,964			(1,004)	0.09%
Improvements	6,897	6,242			(655)	-9.50%
Machinery & Equipment	55,289	46,408	\$ 7,945	\$ 6,990	(9,836)	15.56%
<b>Total Capital Assets, Net</b>	<b>\$ 1,272,530</b>	<b>\$ 1,261,990</b>	<b>\$ 7,945</b>	<b>\$ 6,990</b>	<b>\$ (11,495)</b>	<b>-0.90%</b>

Assets purchased this year:

Mobile Classroom	\$ 12,942
Fire Escape/Staircase	\$ 16,949
Library Books purchased	\$ 2,595
<b>Total purchases</b>	<b>\$ 32,486</b>

Depreciation Expense (by category)

Improvements	\$ 655
Buildings	\$ 30,895
Machinery & Equipment	\$ 11,476
<b>Total Depreciation Expense</b>	<b>\$ 43,026</b>

Beginning Balance	\$1,272,530
Plus assets purchased	\$ 32,486
Less depreciation expense	\$ (43,026)
<b>Ending Balance</b>	<b>\$1,261,990</b>

## LONG-TERM DEBT

The School District paid \$100,000 in Capital Outlay Certificate principal payments and \$1,981 in Capital Outlay Certificate interest payments during the fiscal year. (See Table A-4)

**Table A-4**  
**Emery School District No 30-2**  
**Long Term Debt**

	Governmental Activities		Total Dollar Change	Total Percentage Change
	2009	2010	2009-2010	2009-2010
Capital Outlay Certificates	100,000	0	(100,000)	-100.00%
<b>Total Capital Assets, Net</b>	<b>\$ 100,000</b>	<b>\$0</b>	<b>\$ (100,000)</b>	<b>-100.00%</b>

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The School's current economic outlook reflects a favorable position. They experienced an increase in total property valuation in taxes payable in 2010 from \$77,346,837 to \$81,813,179, which represents an increase of 5.8 percent from the prior year. The increase in property valuation allows the School to increase the amount of revenue generated from property taxes, however the total amount to be received by the school district in the General Fund is limited by the State of South Dakota.

Declining enrollment equates to automatic reductions in State Aid funding and lower overall revenue earned. In legislation passed in February 2004, the SD Legislature has frozen the school District's small school factor at \$4,237.782. The SD Legislature also implemented mandatory fund balance caps, which will cause a \$ per \$ loss in state aid, should the district's fund balance exceed the limitation. The school district can only maintain a fund balance of 25% by fiscal year 2012.

## **CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the school district's finances and to demonstrate the school's accountability for the money it receives. If you have questions about this report or need additional information, contact Jason Bailey, Superintendent; or Lori Jansen, Business Manager for the Emery School District at P.O. Box 265 Emery, SD 57332.

**EMERY SCHOOL DISTRICT NO. 30-2**  
**STATEMENT OF NET ASSETS**  
**As of June 30, 2010**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS:</b>			
Cash and Cash Equivalents	1,095,855.63	7,385.26	1,103,240.89
Taxes Receivable	360,190.90		360,190.90
Other Assets	26,601.69	3,681.20	30,282.89
Inventories		1,615.88	1,615.88
Capital Assets:			
Land	12,376.00		12,376.00
Other Capital Assets, Net of Depreciation	1,249,613.62	6,990.19	1,256,603.81
<b>TOTAL ASSETS</b>	<b>2,744,637.84</b>	<b>19,672.53</b>	<b>2,764,310.37</b>
<b>LIABILITIES :</b>			
Other Current Liabilities	99,193.26	5,885.18	105,078.44
Deferred Revenue	360,190.90		360,190.90
<b>TOTAL LIABILITIES</b>	<b>459,384.16</b>	<b>5,885.18</b>	<b>465,269.34</b>
<b>NET ASSETS:</b>			
Invested in Capital Assets	1,261,989.62	6,990.19	1,268,979.81
Restricted for:			
Capital Outlay	150,736.66		150,736.66
Special Education	9,203.60		9,203.60
Pension	130,271.66		130,271.66
Food Service		6,797.16	6,797.16
Unrestricted (Deficit)	733,052.14		733,052.14
<b>TOTAL NET ASSETS</b>	<b>2,285,253.68</b>	<b>13,787.35</b>	<b>2,299,041.03</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>2,744,637.84</b>	<b>19,672.53</b>	<b>2,764,310.37</b>

The notes to the financial statements are an integral part of this statement.

**EMERY SCHOOL DISTRICT NO. 30-2**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
Instruction	990,000.34	75.00	267,211.34		(722,714.00)		(722,714.00)
Support Services	696,179.68	159,308.58			(536,871.10)		(536,871.10)
Nonprogrammed Charges	1,138.20				(1,138.20)		(1,138.20)
*Interest on Long-Term Debt	1,980.55				(1,980.55)		(1,980.55)
Cocurricular Activities	109,543.17	15,829.47			(93,713.70)		(93,713.70)
Total Governmental Activities	1,798,841.94	175,213.05	267,211.34	0.00	(1,356,417.55)		(1,356,417.55)
Business-type Activities:							
Food Service	90,217.73	46,784.00	38,154.93			(5,278.80)	(5,278.80)
Total Primary Government	1,889,059.67	221,997.05	305,366.27	0.00	(1,356,417.55)	(5,278.80)	(1,361,696.35)

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

**General Revenues:**

Taxes:			
Property Taxes	730,480.24		730,480.24
Gross Receipts Taxes	41,073.67		41,073.67
Revenue from State Sources:			
State Aid	734,252.07		734,252.07
Revenue from Federal Sources	936.82		936.82
Unrestricted Investment Earnings	6,752.06		6,752.06
Other General Revenues	22,064.50		22,064.50
Transfers	(3,500.00)	3,500.00	0.00
Total General Revenues and Transfers	1,532,059.36	3,500.00	1,535,559.36
Change in Net Assets	175,641.81	(1,778.80)	173,863.01
Net Assets - Beginning	2,109,611.87	15,566.15	2,125,178.02
NET ASSETS - ENDING	2,285,253.68	13,787.35	2,299,041.03

The notes to the financial statements are an integral part of this financial statement.

**EMERY SCHOOL DISTRICT 30-2  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
As of June 30, 2010**

	<b>General Fund</b>	<b>Capital Outlay Fund</b>	<b>Special Education Fund</b>	<b>Pension Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS:</b>					
Cash and Cash Equivalents	790,405.87	150,736.66	19,441.44	130,271.66	1,090,855.63
Advanced Payments	5,000.00				5,000.00
Taxes Receivable--Current	172,216.15	112,744.35	57,394.31	12,298.12	354,652.93
Taxes Receivable--Delinquent	3,304.20	1,344.27	732.55	156.95	5,537.97
Accounts Receivable, Net	1,450.03				1,450.03
Due from State Government	25,151.66				25,151.66
<b>TOTAL ASSETS</b>	<b>997,527.91</b>	<b>264,825.28</b>	<b>77,568.30</b>	<b>142,726.73</b>	<b>1,482,648.22</b>
<b>LIABILITIES AND FUND BALANCES:</b>					
Liabilities:					
Contracts Payable	71,312.19		8,341.54		79,653.73
Payroll Deductions and Withholdings and Employer Matching Payable	17,643.23		1,896.30		19,539.53
Deferred Revenue	175,520.35	114,088.62	58,126.86	12,455.07	360,190.90
<b>Total Liabilities</b>	<b>264,475.77</b>	<b>114,088.62</b>	<b>68,364.70</b>	<b>12,455.07</b>	<b>459,384.16</b>
Fund Balances:					
Unreserved Fund Balances:					
Undesignated	733,052.14	150,736.66	9,203.60	130,271.66	1,023,264.06
<b>Total Fund Balances</b>	<b>733,052.14</b>	<b>150,736.66</b>	<b>9,203.60</b>	<b>130,271.66</b>	<b>1,023,264.06</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>997,527.91</b>	<b>264,825.28</b>	<b>77,568.30</b>	<b>142,726.73</b>	<b>1,482,648.22</b>

The notes to the financial statements are an integral part of this statement.

**EMERY SCHOOL DISTRICT NO. 30-2**  
**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets**  
**June 30, 2010**

Total Fund Balances - Governmental Funds	<u>1,023,264.06</u>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>1,261,989.62</u>
Net Assets - Governmental Activities	<u><u>2,285,253.68</u></u>

The notes to the financial statements are an integral part of this statement.



**EMERY SCHOOL DISTRICT NO. 30-2**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2010**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
Revenue from Local Sources:					
Taxes:					
Ad Valorem Taxes	370,144.10	217,990.36	110,984.86	23,776.21	722,895.53
Prior Years' Ad Valorem Taxes	3,092.98	1,003.84	589.66	127.90	4,814.38
Gross Receipts Taxes	41,073.67				41,073.67
Penalties and Interest on Taxes	1,963.34	492.40	260.29	54.30	2,770.33
Tuition and Fees:					
Regular Day School Tuition	75.00				75.00
Earnings on Investments and Deposits	4,558.15	1,309.45		884.46	6,752.06
Cocurricular Activities:					
Admissions	11,654.47				11,654.47
Other Pupil Activity Income	4,175.00				4,175.00
Other Revenue from Local Sources:					
Rentals	725.00				725.00
Contributions and Donations	2,530.00				2,530.00
Services Provided Other LEAs	145,729.64				145,729.64
Refund of Prior Year's Expenditures	20.50				20.50
Judgements	505.92				505.92
Charges for Services	8,574.00		5,004.94		13,578.94
Other	9,218.50				9,218.50
Revenue from Intermediate Sources:					
County Sources:					
County Apportionment	8,414.58				8,414.58
Revenue from State Sources:					
Grants-in-Aid:					
Unrestricted Grants-in-Aid	734,252.07				734,252.07
Other State Revenue	5,860.53				5,860.53
Revenue from Federal Sources:					
Grants-in-Aid:					
Restricted Grants-in-Aid Received Directly from Federal Government	22,325.13				22,325.13
Restricted Grants-in-Aid Received from Federal Government Through the State	150,294.68		88,731.00		239,025.68
Revenue in Lieu of Taxes (PILT)	667.16	166.67	84.84	18.15	936.82
<b>Total Revenue</b>	<b>1,525,854.42</b>	<b>220,962.72</b>	<b>205,655.59</b>	<b>24,861.02</b>	<b>1,977,333.75</b>

The notes to the financial statements are an integral part of this statement.

**EMERY SCHOOL DISTRICT NO. 30-2**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2010**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>Total Governmental Funds</u>
<b>Expenditures:</b>					
Instruction:					
Regular Programs:					
Elementary	252,085.56	2,243.75			254,329.31
Middle/Junior High	146,506.31	451.61			146,957.92
High School	388,359.27	7,169.28			395,528.55
Special Programs:					
Programs for Special Education			87,141.29		87,141.29
Educationally Deprived	60,641.38				60,641.38
Other Special Programs	22,497.55				22,497.55
Support Services:					
Pupils:					
Guidance	21,154.01		295.36		21,449.37
Health	543.74				543.74
Psychological			11,507.35		11,507.35
Speech Pathology			27,362.50		27,362.50
Student Therapy Services			6,120.00		6,120.00
Instructional Staff:					
Improvement of Instruction	49,692.31	1,424.97	10,213.00		61,330.28
Educational Media	19,609.88		349.28		19,959.16
General Administration:					
Board of Education	19,178.23		2,149.04		21,327.27
Executive Administration	50,161.89				50,161.89
School Administration:					
Office of the Principal	126,970.95				126,970.95
Other	529.00				529.00
Business:					
Fiscal Services	77,674.97	2,955.00	7,621.64		88,251.61
Facilities Acquisition and Construction		114.50			114.50
Operation and Maintenance of Plant	115,587.29	34,329.19			149,916.48
Pupil Transportation	3,065.57	62,093.76			65,159.33
Internal Services		9,000.01			9,000.01
Special Education					
Administrative Costs			29,724.33		29,724.33
Transportation Costs			56.00		56.00

The notes to the financial statements are an integral part of this statement.

**EMERY SCHOOL DISTRICT NO. 30-2**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2010**

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
<b>Expenditures (continued):</b>					
Nonprogrammed Charges:					
Early Retirement Payments			1,138.20		1,138.20
Debt Services		101,980.56			101,980.56
Cocurricular Activities:					
Male Activities	22,148.09	450.00			22,598.09
Female Activities	27,807.67	240.00			28,047.67
Transportation	6,383.48	8,290.44			14,673.92
Combined Activities	30,796.77				30,796.77
Capital Outlay		32,486.29			32,486.29
Total Expenditures	1,441,393.92	263,229.36	183,677.99	0.00	1,888,301.27
Excess of Revenue Over (Under) Expenditures	84,460.50	(42,266.64)	21,977.60	24,861.02	89,032.48
<b>Other Financing Sources (Uses):</b>					
Transfers In	24,730.91				24,730.91
Transfers Out	(3,500.00)	(1,309.45)	(22,537.00)	(884.46)	(28,230.91)
Sale of Surplus Property	650.00				650.00
Total Other Financing Sources (Uses)	21,880.91	(1,309.45)	(22,537.00)	(884.46)	(2,850.00)
Net Change in Fund Balances	106,341.41	(43,576.09)	(559.40)	23,976.56	86,182.48
Fund Balance - Beginning	626,710.73	194,312.75	9,763.00	106,295.10	937,081.58
FUND BALANCE - ENDING	733,052.14	150,736.66	9,203.60	130,271.66	1,023,264.06

The notes to the financial statements are an integral part of this statement.

**EMERY SCHOOL DISTRICT NO. 30-2**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund**  
**Balances to the Government-Wide Statement of Activities**  
**For the Year Ended June 30, 2010**

Net Change in Fund Balances - Total Governmental Funds	<u>86,182.48</u>
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 exceeded capital outlays in the current period.	<u>(10,540.68)</u>
Governmental funds report principal payments on long-term debt as expenditures. However, the statement of net assets reports this amount as a long-term debt. This is the principal payment for the year.	<u>100,000.01</u>
Change in Net Assets of Governmental Activities	<u><u>175,641.81</u></u>

The notes to the financial statements are an integral part of this statement.

**EMERY SCHOOL DISTRICT NO. 30-2**  
**BALANCE SHEET**  
**PROPRIETARY FUNDS**  
**As of June 30, 2010**

	Enterprise Fund Food Service Fund
<b>ASSETS:</b>	
Current Assets:	
Cash and Cash Equivalents	7,385.26
Accounts Receivable, Net	3,681.20
Inventory of Stores Purchased for Resale	633.54
Inventory of Donated Food	982.34
Total Current Assets	12,682.34
Noncurrent Assets:	
Capital Assets:	
Machinery and Equipment--Local Funds	29,967.73
Machinery and Equipment--Federal Assistance	2,090.00
Less: Accumulated Depreciation (Credit)	(25,067.54)
Total Noncurrent Assets	6,990.19
<b>TOTAL ASSETS</b>	<b>19,672.53</b>
<b>LIABILITIES:</b>	
Contracts Payable	4,959.96
Payroll Deductions and Withholdings and Employer Matching Payable	925.22
Total Liabilities	5,885.18
<b>NET ASSETS:</b>	
Invested in Capital Assets	6,990.19
Unrestricted Net Assets	6,797.16
Total Net Assets	13,787.35
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>19,672.53</b>

The notes to the financial statement are an integral part of this statement.

**EMERY SCHOOL DISTRICT NO. 30-2**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2010**

	<b>Enterprise Fund</b>
	<b>Food Service Fund</b>
<b>Operating Revenue:</b>	
Food Sales:	
Student	42,054.65
Adults	3,731.61
Other Charges for Goods and Services	997.74
Total Operating Revenue	46,784.00
<b>Operating Expenses:</b>	
Salaries	32,479.28
Employee Benefits	10,317.18
Purchased Services	1,524.57
Supplies	1,389.19
Cost of Sales - Purchased	37,769.52
Cost of Sales - Donated	5,783.60
Depreciation	954.39
Total Operating Expenses	90,217.73
Operating Income (Loss)	(43,433.73)
<b>Nonoperating Revenue (Expense):</b>	
State Grants	453.78
Federal Grants	31,816.52
Donated Food	5,884.63
Total Nonoperating Revenue (Expense)	38,154.93
Income (Loss) Before Contributions, Special Items, Extraordinary Items and Transfers	(5,278.80)
Transfers In	3,500.00
Change in Net Assets	(1,778.80)
Net Assets - Beginning	15,566.15
NET ASSETS - ENDING	13,787.35

The notes to the financial statements are an integral part of this statement.

**EMERY SCHOOL DISTRICT NO. 30-2**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2010**

	<b>Enterprise Funds</b>
	<b>Food Service Fund</b>
<b>Cash Flows from Operating Activities:</b>	
Cash Receipts from Customers	47,774.35
Cash Payments to Employees for Services	(42,878.78)
Cash Payments to Suppliers of Goods and Services	(40,457.82)
Net Cash Provided (Used) by Operating Activities	(35,562.25)
<b>Cash Flows from Noncapital Financing Activities:</b>	
Transfers from General Fund	3,500.00
Operating Grants	32,270.30
Net Cash Flows from Noncapital Financing Activities	35,770.30
Net Increase (Decrease) in Cash and Cash Equivalents	208.05
Cash and Cash Equivalents at Beginning of Year	7,177.21
Cash and Cash Equivalents at End of Year	7,385.26
Net Increase (Decrease) in Cash and Cash Equivalents	208.05
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>	
Operating Income (Loss)	(43,433.73)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	954.39
Value of Donated Commodities Used	5,783.60
Change in Assets and Liabilities:	
Receivables	990.35
Inventories	366.44
Accounts and Other Payables	(140.98)
Accrued Wages Payable	(82.32)
Net Cash Provided (Used) by Operating Activities	(35,562.25)
<b>Noncash Investing, Capital and Financing Activities:</b>	
Value of Commodities Received	5,884.63

The notes to the financial statements are an integral part of this statement.

**EMERY SCHOOL DISTRICT NO. 30-2**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**As of June 30, 2010**

	<u>Agency Funds</u>
<b>ASSETS:</b>	
Cash and Cash Equivalents	<u>21,294.58</u>
<b>TOTAL ASSETS</b>	<u><u>21,294.58</u></u>
<b>LIABILITIES:</b>	
Amounts Held for Others	<u>21,294.58</u>
<b>Total Liabilities</b>	<u>21,294.58</u>
<b>NET ASSETS</b>	<u>0.00</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>21,294.58</u></u>

The notes to the financial statements are an integral part of this statement.



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## NOTES TO THE FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### a. Financial Reporting Entity:

The reporting entity of Emery School District No. 30-2 (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 financial reporting entity); 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 financial reporting entity'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 financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the School District.

#### b. Basis of Presentation:

##### Government-wide Financial Statements:

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

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each 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.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**Fund Financial Statements:**

Fund financial statements of the reporting entity 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 percent 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 percent 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.

The funds of the School District financial reporting entity 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.

**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 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.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**Proprietary Funds:**

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

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

**Fiduciary Funds:**

Fiduciary funds are never considered to be major funds.

Agency Fund Types – agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The School District maintains agency funds for the following purposes:

The School District maintains agency funds to hold assets as an agent in a trustee capacity for various classes and clubs.

**c. 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 Assets 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, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary fund types.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**Basis of Accounting:**

**Government-wide Financial Statements:**

In the government-wide Statement of Net Assets 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 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 all the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Emery School District No. 30-2, the length of that cycle is 60 days. The revenues, which are accrued at June 30, 2010, are grant revenues and miscellaneous revenue.

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

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.

The business-type activities and enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

**d. Capital Assets:**

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

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

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

### Government-Wide Statements

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

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

Depreciation of all exhaustible capital assets is not recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets. 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	\$ 0.00	N/A	N/A
Improvements	\$ 5,000.00	Straight-Line	20 yrs.
Buildings	\$ 5,000.00	Straight-Line	50-100 yrs.
Machinery & Equipment	\$ 5,000.00	Straight-Line	5-20 yrs
Food Service Machinery and Equipment	\$ 500.00	Straight-Line	12 yrs.

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 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.

#### e. 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 statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of capital outlay certificates payable, which were paid off in fiscal year 2010.

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 or proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

f. 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, applications, 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.

g. Proprietary Funds Revenue and Expense Classifications:

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, non-capital financing activities, or investing activities are not reported as components of operating revenues and expenses.

h. 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.

i. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in three components.

1. Invested in capital assets, net of related debt – 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 assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

3. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" 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 assets held in trust for other purposes.

j. Application of Net Assets:

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

2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

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

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.

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.

Concentration of Credit Risk – The School District places no limit on the amount that may be invested in any one issuer.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from deposits and investments to the General Fund. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities. These interfund transfers are not violations of statutory restrictions on interfund transfers.

### 3. RECEIVABLES AND PAYABLES

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

### 4. INVENTORY

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at 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, special revenue funds, and proprietary funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. No material supplies inventories were on hand at June 30, 2010.

### 5. PROPERTY TAXES

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

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



NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**6. CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2010, is as follows:

**Primary Government:**

	<u>Balance 07/01/09</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 06/30/10</u>
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	12,376.00			12,376.00
Capital Assets, being depreciated:				
Improvements	13,111.76			13,111.76
Buildings	1,664,891.08	29,890.94		1,694,782.02
Machinery & Equipment	244,036.40	2,595.35	(13,800.00)	232,831.75
Total, being depreciated	<u>1,922,039.24</u>	<u>32,486.29</u>	<u>(13,800.00)</u>	<u>1,940,725.53</u>
Less Accumulated Depreciation for:				
Improvements	(6,214.03)	(655.59)		(6,869.62)
Buildings	(466,923.62)	(30,894.86)		(497,818.48)
Machinery & Equipment	(188,747.29)	(11,476.52)	13,800.00	(186,423.81)
Total Accumulated Depreciation	<u>(661,884.94)</u>	<u>(43,026.97)</u>	<u>13,800.00</u>	<u>(691,111.91)</u>
Total Capital Assets, being depreciated, net	<u>1,260,154.30</u>	<u>(10,540.68)</u>	<u>0.00</u>	<u>1,249,613.62</u>
Governmental Activity Capital Assets, Net	<u>1,272,530.30</u>	<u>(10,540.68)</u>	<u>0.00</u>	<u>1,261,989.62</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 22,904.34
Support Services	6,695.91
Co-curricular Activities	13,426.72
Total depreciation expense - governmental activities	<u>\$ 43,026.97</u>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

	Balance 07/01/09	Increases	Decreases	Balance 06/30/10
Business-Type Activities:				
Capital Assets, being depreciated:				
Machinery & Equipment	33,959.43		(1,901.70)	32,057.73
Total, being depreciated	33,959.43	0.00	(1,901.70)	32,057.73
Less Accumulated Depreciation for:				
Machinery & Equipment	(26,014.85)	(954.39)	1,901.70	(25,067.54)
Total Accumulated Depreciation	(26,014.85)	(954.39)	1,901.70	(25,067.54)
Business-Type Activity Capital Assets, Net	7,944.58	(954.39)	0.00	6,990.19

Depreciation expense was charged to functions as follows:

Business-Type Activities:	
Food Services	954.39
Total Depreciation Expense - Business-Type Activities	954.39

## 7. LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	Beginning Balance 07-01-09	Additions	Deletions	Ending Balance 06-30-10	Due Within One Year
Primary Government:					
Governmental Activities:					
Capital Outlay Certificates	100,000.01		(100,000.01)	0.00	
Total Primary Government	100,000.01	0.00	(100,000.01)	0.00	0.00

## 8. OPERATING LEASES

Operating lease agreement for Toshiba Copiers, paid by the Capital Outlay Fund.

The following are the minimum payments on existing operating leases:

Year	Amount Capital Outlay Fund
2011	\$4,540.56
2012	\$4,540.56
2013	\$4,540.56
2014	\$4,540.56
2015	\$1,135.14

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

### 9. RESTRICTED NET ASSETS

Restricted net assets for the fiscal year ended June 30, 2010, were as follows:

FUND	Restricted By:	6-30-10 Amount
Special Education	Law	\$ 9,203.60
Capital Outlay	Law	150,736.66
Pension	Law	130,271.66
Food Service	Federal Regulations	6,797.16
Total Restricted Net Assets		<u>\$ 297,009.08</u>

### 10. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2010 were as follows:

Transfers From:	Transfers To:		Totals
	Governmental Activities	Business-Type Activities	
	General Fund	Food Service Fund	
General Fund		\$ 3,500.00	\$ 3,500.00
Capital Outlay Fund	\$ 1,309.45		1,309.45
Pension Fund	884.46		884.46
Special Education Fund	22,537.00		22,537.00
Totals	<u>\$ 24,730.91</u>	<u>\$ 3,500.00</u>	<u>\$ 28,230.91</u>

The School District typically uses transfers to transfer earnings on deposits and investments from other funds to the General Fund, to transfer from the General Fund to the Food Service Fund, and to transfer from the Special Education Fund to the General Fund per state law.

### 11. RETIREMENT PLAN

All employees, working more than 20 hours per week, 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 survivor benefits. The right to receive retirement benefits vests after three years 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, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent 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, 2010, 2009, and 2008, were \$58,237.46, \$55,005.18, and \$51,711.83, respectively, equal to the required contributions each year.

**12. OTHER POST EMPLOYMENT BENEFITS – HEALTHCARE PLAN**

**Plan Description:**

Emery School District Health Plan is a single-employer defined benefit healthcare plan administered by the School District. The Emery School District Health Plan provides medical insurance benefits to eligible retirees and their spouses as permitted by South Dakota Codified Law 6-1-16. Benefit provisions were established and may be amended by the governing board. The health plan does not issue separately stated stand-alone financial statements.

**Funding Policy:**

The contributions requirements of plan members and the School District are established and may be amended by the governing board. An employee who retires from the School District on or after the age of 55 and with at least three 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. (pay-as-you-go-basis).

**Annual OPEB Cost and NET OPEB Obligation:**

The School District's annual other post employment 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 cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the financial components of the plan:

Annual Required Contribution (ARC)	\$ 6,104.00
Interest on net OPEB obligation	220.00
Adjustment to annual required contribution	<u>(324.00)</u>
Annual OPEB Cost	<u>\$ 6,000.00</u>
Increase (Decrease) in net OPEB obligation	<u>\$ (1,788.00)</u>
Net OPEB Obligation - beginning of year	<u>5,496.00</u>
Net OPEB Obligation - end of year	<u><u>\$ 9,708.00</u></u>

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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

Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2009	\$ 5,985.00	8.2%	\$ 5,496.00
6/30/2010	\$ 6,000.00	29.3%	\$ 4,212.00

Funded Status and Funding Progress:

As of June 30, 2010, the most recent actuarial valuation date, the plan's statistics were as follows:

Actuarial Accrued Liability	\$ 51,853.00
Actuarial Value of Benefit Assets	<u>0</u>
Unfunded Actuarial Accrued Liability	<u>\$ 51,853.00</u>
Funded Ratio	<u>0%</u>
Covered Payroll	<u>\$ 970,624.25</u>
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll	<u>100%</u>

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 multiyear 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, 2010, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0% rate of return and an annual healthcare cost trend rate of 9.30 percent initially, reduced by decrements to an ultimate rate of 4.7 percent after 45 years. Both rates include a 2.0

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2010 was 43 years.

**13. JOINT VENTURES**

The School District participates in the Cornbelt Educational Cooperative, a cooperative service unit (co-op) formed for the purpose of providing equal educational opportunity services to the member school districts.

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

Bridgewater School District No. 43-6	3.69%
Canistota School District No. 43-1	5.59%
Emery School District No. 30-2	4.49%
Freeman School District No. 33-1	11.46%
Hanson School District No. 30-1	9.70%
Hurley School District No. 60-2	3.86%
Marion School District No. 60-3	5.47%
McCook School District No. 43-7	11.99%
Montrose School District No. 43-2	5.29%
Parker School District No. 60-4	8.85%
Tea Area School District No. 41-5	29.61%

The co-op's governing board is composed of two representatives from each member school district, who are one school board member who serves on the Board of Directors and the superintendent who serves on the advisory board. The board is responsible for adopting the co-op's budget and setting service fees at a level adequate to fund the adopted budget.

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

Separate financial statements for this joint venture are available from the Cornbelt Educational Cooperative.

At June 30, 2010, this joint venture had total fund equity of \$352,920.30 and no long-term debt.

**14. 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, 2010, 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.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

Liability Insurance:

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

Worker's Compensation:

The School District purchases liability insurance for workmen's compensation from a commercial carrier. 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.

During the year ended June 30, 2010, no claims for unemployment benefits were paid. At June 30, 2010, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

15. SIGNIFICANT CONTINGENCIES – LITIGATION

At June 30, 2010, the School District was not involved in any significant litigation.

16. GOING CONCERN

In fiscal year 2009, the patrons of the Emery School District and the Bridgewater School District voted to consolidate. As of June 30, 2010 the Emery School District No. 30-2 ceased to exist and consolidated with Bridgewater School District to become Bridgewater-Emery School District No. 30-3.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**EMERY SCHOOL DISTRICT NO. 30-2**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended June 30, 2010**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>(Budgetary Basis)</b>	<b>Final Budget - Positive (Negative)</b>
<b>Revenues:</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	369,597.00	369,597.00	370,144.10	547.10
Prior Years' Ad Valorem Taxes	2,553.00	2,553.00	3,092.98	539.98
Gross Receipts Taxes	40,000.00	40,000.00	41,073.67	1,073.67
Penalties and Interest on Taxes	750.00	750.00	1,963.34	1,213.34
Tuition and Fees:				
Regular Day School Tuition	0.00	0.00	75.00	75.00
Earnings on Investments and Deposits	28,000.00	28,000.00	4,558.15	(23,441.85)
Cocurricular Activities:				
Admissions	12,500.00	12,500.00	11,654.47	(845.53)
Other Pupil Activity Income	5,750.00	5,750.00	4,175.00	(1,575.00)
Other Revenue from Local Sources:				
Rentals	775.00	775.00	725.00	(50.00)
Contributions and Donations	0.00	0.00	2,530.00	2,530.00
Services Provided Other LEAs	145,613.00	145,613.00	145,729.64	116.64
Refund of Prior Year's Expenditures	0.00	0.00	20.50	20.50
Judgments	0.00	0.00	505.92	505.92
Charges for Services	0.00	0.00	8,574.00	8,574.00
Other	3,000.00	3,000.00	9,218.50	6,218.50
Revenue from Intermediate Sources:				
County Sources:				
County Apportionment	14,500.00	14,500.00	8,414.58	(6,085.42)
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	793,694.00	737,485.00	734,252.07	(3,232.93)
Other State Revenue	0.00	0.00	5,860.53	5,860.53
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through the State	109,037.00	165,246.00	150,294.68	(14,951.32)
Revenue In Lieu of Taxes (PILT)	0.00	0.00	667.16	667.16
Other Federal Revenue	3,600.00	3,600.00	22,325.13	18,725.13
<b>Total Revenue</b>	<b>1,529,369.00</b>	<b>1,529,369.00</b>	<b>1,525,854.42</b>	<b>(3,514.58)</b>
<b>Expenditures:</b>				
Instruction:				
Regular Programs:				
Elementary	275,709.00	275,709.00	252,085.56	23,623.44
Middle/Junior High	132,273.20	148,091.53	146,506.31	1,585.22
High School	408,163.00	408,163.00	388,359.27	19,803.73
Special Programs:				
Educationally Deprived	69,539.00	69,539.00	60,641.38	8,897.62
Other Special Programs	13,883.00	22,497.55	22,497.55	0.00



**REQUIRED SUPPLEMENTARY INFORMATION**  
**EMERY SCHOOL DISTRICT NO. 30-2**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended June 30, 2010**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>(Budgetary Basis)</b>	<b>Final Budget -</b>
				<b>Positive (Negative)</b>
<b>Expenditures (continued):</b>				
Support Services:				
Pupils:				
Guidance	17,950.00	17,950.00	21,154.01	(3,204.01)
Health	370.00	543.74	543.74	0.00
Instructional Staff:				
Improvement of Instruction	57,496.00	57,496.00	49,692.31	7,803.69
Educational Media	14,319.00	19,832.74	19,609.88	222.86
General Administration:				
Board of Education	21,187.00	23,178.33	19,178.23	4,000.10
Executive Administration	49,377.00	50,161.89	50,161.89	0.00
School Administration:				
Office of the Principal	96,237.00	129,569.11	126,970.95	2,598.16
Other	0.00	388.00	529.00	(141.00)
Business:				
Fiscal Services	80,359.80	80,359.80	77,674.97	2,684.83
Operation and Maintenance of Plant	148,664.00	148,664.00	115,587.29	33,076.71
Pupil Transportation	68,200.00	68,200.00	3,065.57	65,134.43
Cocurricular Activities:				
Male Activities	24,117.00	24,712.95	22,148.09	2,564.86
Female Activities	29,997.00	30,332.54	27,807.67	2,524.87
Transportation	15,000.00	15,000.00	6,383.48	8,616.52
Combined Activities	33,714.00	34,439.53	30,796.77	3,642.76
Contingencies	49,000.00	49,000.00		
Amount Transferred		(49,000.00)		0.00
<b>Total Expenditures</b>	<b>1,605,555.00</b>	<b>1,624,828.71</b>	<b>1,441,393.92</b>	<b>183,434.79</b>
<b>Excess of Revenue Over (Under)</b>				
Expenditures	(76,186.00)	(95,459.71)	84,460.50	179,920.21
<b>Other Financing Sources (Uses):</b>				
Transfers In	0.00	0.00	24,730.91	24,730.91
Transfers Out	(4,490.00)	(4,490.00)	(3,500.00)	990.00
Sale of Surplus Property	0.00	0.00	650.00	650.00
<b>Total Other Financing Sources (Uses)</b>	<b>(4,490.00)</b>	<b>(4,490.00)</b>	<b>21,880.91</b>	<b>26,370.91</b>
<b>Net Change in Fund Balances</b>	<b>(80,676.00)</b>	<b>(99,949.71)</b>	<b>106,341.41</b>	<b>206,291.12</b>
<b>Fund Balance - Beginning</b>	<b>626,710.73</b>	<b>626,710.73</b>	<b>626,710.73</b>	<b>0.00</b>
<b>FUND BALANCE - ENDING</b>	<b>546,034.73</b>	<b>526,761.02</b>	<b>733,052.14</b>	<b>206,291.12</b>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**EMERY SCHOOL DISTRICT NO. 30-2**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**CAPITAL OUTLAY FUND**  
**For the Year Ended June 30, 2010**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>(Budgetary Basis)</b>	<b>Final Budget - Positive (Negative)</b>
<b>Revenues:</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	238,726.00	238,726.00	217,990.36	(20,735.64)
Prior Years' Ad Valorem Taxes	1,236.00	1,236.00	1,003.84	(232.16)
Penalties and Interest on Taxes	0.00	0.00	492.40	492.40
Earnings on Investments and Deposits	0.00	0.00	1,309.45	1,309.45
Revenue from Federal Sources:				
Revenue in Lieu of Taxes (PILT)	0.00	0.00	166.67	166.67
Other Federal Revenue	13,070.00	13,070.00	0.00	(13,070.00)
<b>Total Revenue</b>	<b>253,032.00</b>	<b>253,032.00</b>	<b>220,962.72</b>	<b>(32,069.28)</b>
<b>Expenditures:</b>				
Instruction:				
Regular Programs:				
Elementary	6,000.00	6,000.00	2,243.75	3,756.25
Middle/Junior High	0.00	451.61	451.61	0.00
High School	22,875.00	22,875.00	7,169.28	15,705.72
Support Services:				
Instructional Staff:				
Improvement of Instruction	13,070.00	13,070.00	1,424.97	11,645.03
Educational Media	2,000.00	2,566.38	2,595.35	(28.97)
School Administration:				
Office of the Principal	550.00	550.00	0.00	550.00
Business:				
Fiscal Services	2,950.00	2,950.00	2,955.00	(5.00)
Facilities Acquisition and Construction	7,000.00	13,056.52	13,056.52	0.00
Operation and Maintenance of Plant	63,706.00	84,043.63	51,278.11	32,765.52
Pupil Transportation	16,000.00	69,803.32	62,093.76	7,709.56
Food Services	500.00	500.00	0.00	500.00
Internal Services	9,400.00	9,400.00	9,000.01	399.99
Debt Service	101,981.00	101,981.00	101,980.56	0.44
Cocurricular Activities:				
Male Activities	3,500.00	3,500.00	450.00	3,050.00
Female Activities	3,500.00	3,500.00	240.00	3,260.00
Transportation	0.00	8,290.44	8,290.44	0.00
<b>Total Expenditures</b>	<b>253,032.00</b>	<b>342,537.90</b>	<b>263,229.36</b>	<b>79,308.54</b>
Excess of Revenue Over (Under) Expenditures	0.00	(89,505.90)	(42,266.64)	47,239.26
<b>Other Financing Sources (Uses):</b>				
Transfers Out	0.00	0.00	(1,309.45)	(1,309.45)
<b>Total Other Financing Sources (Uses)</b>	<b>0.00</b>	<b>0.00</b>	<b>(1,309.45)</b>	<b>(1,309.45)</b>
<b>Net Change in Fund Balances</b>	<b>0.00</b>	<b>(89,505.90)</b>	<b>(43,576.09)</b>	<b>45,929.81</b>
Fund Balance - Beginning	194,312.75	194,312.75	194,312.75	0.00
<b>FUND BALANCE - ENDING</b>	<b>194,312.75</b>	<b>104,806.85</b>	<b>150,736.66</b>	<b>45,929.81</b>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**EMERY SCHOOL DISTRICT NO. 30-2**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**SPECIAL EDUCATION FUND**  
**For the Year Ended June 30, 2010**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>(Budgetary Basis)</b>	<b>Final Budget - Positive (Negative)</b>
<b>Revenues:</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	112,109.00	112,109.00	110,984.86	(1,124.14)
Prior Years' Ad Valorem Taxes	766.00	766.00	589.66	(176.34)
Penalties and Interest on Taxes	0.00	0.00	260.29	260.29
Other Revenue from Local Sources:				
Charges for Services	0.00	0.00	5,004.94	5,004.94
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through the State	90,481.00	90,481.00	88,731.00	(1,750.00)
Revenue in Lieu of Taxes (PILT)	0.00	0.00	84.84	84.84
<b>Total Revenue</b>	<b>203,356.00</b>	<b>203,356.00</b>	<b>205,655.59</b>	<b>2,299.59</b>
<b>Expenditures:</b>				
Instruction:				
Special Programs:				
Programs for Special Education	89,544.41	89,544.41	87,141.29	2,403.12
Support Services:				
Pupils:				
Guidance	295.37	295.37	295.36	0.01
Psychological	12,854.98	12,854.98	11,507.35	1,347.63
Speech Pathology	31,349.61	31,349.61	27,362.50	3,987.11
Student Therapy Services	4,000.00	4,000.00	6,120.00	(2,120.00)
Instructional Staff:				
Improvement of Instruction	6,295.55	6,295.55	10,213.00	(3,917.45)
Educational Media	349.28	349.28	349.28	0.00
General Administration:				
Board of Education	2,149.01	2,149.01	2,149.04	(0.03)
Business:				
Fiscal Services	7,621.70	7,621.70	7,621.64	0.06
Special Education:				
Administrative Costs	45,663.85	45,663.85	29,724.33	15,939.52
Other Special Education Costs	594.06	594.06	56.00	538.06
Nonprogrammed Charges:				
Early Retirement Payments	0.00	0.00	1,138.20	(1,138.20)
Pension Contributions	1,138.18	1,138.18	0.00	1,138.18
Other Nonprogrammed Charges	1,500.00	1,500.00	0.00	1,500.00
<b>Total Expenditures</b>	<b>203,356.00</b>	<b>203,356.00</b>	<b>183,677.99</b>	<b>19,678.01</b>
Excess of Revenue Over (Under) Expenditures	0.00	0.00	21,977.60	21,977.60
<b>Other Financing Sources (Uses):</b>				
Transfers Out	0.00	0.00	(22,537.00)	(22,537.00)
<b>Total Other Financing Sources (Uses)</b>	<b>0.00</b>	<b>0.00</b>	<b>(22,537.00)</b>	<b>(22,537.00)</b>
<b>Net Change in Fund Balances</b>	<b>0.00</b>	<b>0.00</b>	<b>(559.40)</b>	<b>(559.40)</b>
<b>Fund Balance - Beginning</b>	<b>9,763.00</b>	<b>9,763.00</b>	<b>9,763.00</b>	<b>0.00</b>
<b>FUND BALANCE - ENDING</b>	<b>9,763.00</b>	<b>9,763.00</b>	<b>9,203.60</b>	<b>(559.40)</b>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**EMERY SCHOOL DISTRICT NO. 30-2**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**PENSION FUND**  
**For the Year Ended June 30, 2010**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>(Budgetary Basis)</b>	<b>Final Budget -</b>
				<b>Positive (Negative)</b>
<b>Revenues:</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	23,862.00	23,862.00	23,776.21	(85.79)
Prior Years' Ad Valorem Taxes	0.00	0.00	127.90	127.90
Penalties and Interest on Taxes	0.00	0.00	54.30	54.30
Earnings on Investments and Deposits	0.00	0.00	884.46	884.46
Revenue from Federal Sources:				
Revenue in Lieu of Taxes (PILT)	0.00	0.00	18.15	18.15
<b>Total Revenue</b>	<b>23,862.00</b>	<b>23,862.00</b>	<b>24,861.02</b>	<b>999.02</b>
<b>Expenditures:</b>				
Instruction:				
Regular Programs:				
Elementary	23,862.00	23,862.00	0.00	23,862.00
<b>Total Expenditures</b>	<b>23,862.00</b>	<b>23,862.00</b>	<b>0.00</b>	<b>23,862.00</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>0.00</b>	<b>0.00</b>	<b>24,861.02</b>	<b>24,861.02</b>
<b>Other Financing Sources:</b>				
Transfer Out	0.00	0.00	(884.46)	(884.46)
<b>Total Other Financing Sources (Uses)</b>	<b>0.00</b>	<b>0.00</b>	<b>(884.46)</b>	<b>(884.46)</b>
<b>Net Change in Fund Balances</b>	<b>0.00</b>	<b>0.00</b>	<b>23,976.56</b>	<b>23,976.56</b>
<b>Fund Balance - Beginning</b>	<b>106,295.10</b>	<b>106,295.10</b>	<b>106,295.10</b>	<b>0.00</b>
<b>FUND BALANCE - ENDING</b>	<b>106,295.10</b>	<b>106,295.10</b>	<b>130,271.66</b>	<b>23,976.56</b>

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2010

Schedules of Budgetary Comparisons for the General Fund  
and for each major Special Revenue Fund with a legally required budget.

**Note 1. 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 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 by number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
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 and special revenue funds.
11. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

**Note 2. GAAP/Budgetary Accounting Basis Differences:**

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new school bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a school bus would be reported as an expenditure of the Support Services-Business/Pupil Transportation function of government, along with all other current Pupil Transportation related expenditures.