

OFFICE OF STATE AUDITOR

AUDIT REPORT

**DEVILS LAKE PUBLIC SCHOOL DISTRICT No. 1
DEVILS LAKE, NORTH DAKOTA**

FOR THE YEAR ENDED JUNE 30, 2012



DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Devils Lake, North Dakota

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DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Devils Lake, North Dakota

SCHOOL OFFICIALS

June 30, 2012

Steve Haldorson	President
Kory Boehmer	Vice-President
Veronica Nicla	Board Member
Paul Goulding	Board Member
Lee Ann Johnston	Board Member
Steve Swiontek	Superintendent
Scott Privratsky	Business Manager

STATE AUDITOR

ROBERT R. PETERSON
Phone (701) 328-2241
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Local Government Division:
FARGO OFFICE
MANAGER – DAVID MIX
Phone: (701) 239-7252 Fax: (701) 239-7251

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

INDEPENDENT AUDITOR'S REPORT

School Board
Devils Lake Public School District No. 1
Devils Lake, North Dakota

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Devils Lake Public School District No. 1, Devils Lake, North Dakota, as of and for the year ended June 30, 2012, which collectively comprise the Devils Lake Public School District No. 1's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Devils Lake Public School District No. 1, Devils Lake, North Dakota, as of June 30, 2012, and the respective changes in financial position 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 November 13, 2012 on our consideration of the Devils Lake Public School District No. 1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

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

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Independent Auditor's Report – Continued

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 23 through 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Devils Lake Public School District No. 1's financial statements. The combining nonmajor fund financial statements and schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations (Circular A-133)* are presented for purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.



Robert R. Peterson
State Auditor

November 13, 2012

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Devils Lake, North Dakota

STATEMENT OF NET ASSETS
June 30, 2012

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash	\$ 5,407,603
Cash with fiscal agent	262,402
Intergovernmental receivable	909,703
Due from county treasurer	53,192
Taxes receivable	195,315
Prepaid assets	169,106
Capital Assets (net of accumulated depreciation):	
Land	170,100
Buildings	8,668,377
Vehicles	873,888
Copy Machines	23,365
Playground Equipment	67,745
Equipment/Furniture	108,904
Total Capital Assets	<u>\$ 9,912,379</u>
Total Assets	<u>\$ 16,909,700</u>
<u>LIABILITIES</u>	
Accounts payable	\$ 64,586
Contracts payable	1,001,413
Salaries and benefits payable	583,997
Interest payable	10,139
Long-Term Liabilities:	
Due Within One Year:	
Loan payable	3,500
Lease revenue bonds payable	105,000
Special assessments payable	51,751
Early retirement payable	151,160
Compensated absences payable	3,584
Due After One Year:	
Lease revenue bonds payable	235,000
General obligation bonds payable	3,000,000
Special assessments payable	154,370
Early retirement payable	92,194
Compensated absences payable	32,255
Total Liabilities	<u>\$ 5,488,949</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	\$ 6,568,879
Restricted for:	
Debt service	728,410
Special purposes	630,964
Unrestricted	<u>3,492,498</u>
Total Net Assets	<u>\$ 11,420,751</u>

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

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Devils Lake, North Dakota

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental Activities:				
Regular instruction	\$ 8,022,684	\$ -	\$ -	\$ (8,022,684)
Special education	1,723,859	-	642,843	(1,081,016)
Vocational education	1,156,767	-	458,412	(698,355)
Federal programs	1,363,035	-	1,994,787	631,752
District wide services	987,155	-	-	(987,155)
Administration	653,176	-	-	(653,176)
School food services	931,671	430,901	490,814	(9,956)
Operations and maintenance	1,611,618	-	77,399	(1,534,219)
Transportation	817,571	82,981	489,172	(245,418)
Co-curricular activities	988,749	94,473	-	(894,276)
Other programs & services	262,538	131,043	-	(131,495)
Interest and fees on long-term debt	89,778	-	-	(89,778)
Total Governmental Activities	\$ 18,608,601	\$ 739,398	\$ 4,153,427	\$ (13,715,776)
General Revenues:				
Property taxes; levied for general purposes				\$ 2,809,020
Property taxes; levied for tuition				66,089
Property taxes; levied for special reserve				76,210
Property taxes; levied for debt service				489,044
Federal aid-unrestricted				2,326
State aid-unrestricted				11,336,935
Interest earnings				25,487
Miscellaneous revenue				9,205
Total General Revenues				\$ 14,814,316
Changes in Net Assets				\$ 1,098,540
Net Assets - July 1				\$ 10,309,781
Prior Period Adjustment				12,430
Net Assets - July 1, as restated				\$ 10,322,211
Net Assets - June 30				\$ 11,420,751

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

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Devils Lake, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012

	General	Building Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash	\$ 4,134,933	\$ 281,202	\$ 991,468	\$ 5,407,603
Restricted cash	-	-	262,402	262,402
Intergovernmental receivable	904,892	-	4,811	909,703
Due from county treasurer	43,687	3,765	5,740	53,192
Taxes receivable	158,921	14,439	21,955	195,315
Prepaid Assets	169,106	-	-	169,106
Total Assets	\$ 5,411,539	\$ 299,406	\$ 1,286,376	\$ 6,997,321
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities:</u>				
Accounts payable	\$ 64,586	\$ -	\$ -	\$ 64,586
Contracts payable	1,001,413	-	-	1,001,413
Salaries and benefits payable	573,848	-	10,149	583,997
Deferred revenue	158,921	14,439	21,955	195,315
Total Liabilities	\$ 1,798,768	\$ 14,439	\$ 32,104	\$ 1,845,311
<u>Fund Balances:</u>				
<u>Restricted for:</u>				
Debt Service	\$ 343,500	\$ 284,967	\$ 627,641	\$ 1,256,108
<u>Assigned to:</u>				
Special reserve	-	-	532,614	532,614
Food service	-	-	94,017	94,017
<u>Unassigned:</u>	3,269,271	-	-	3,269,271
Total Fund Balances	\$ 3,612,771	\$ 284,967	\$ 1,254,272	\$ 5,152,010
Total Liabilities and Fund Balances	\$ 5,411,539	\$ 299,406	\$ 1,286,376	\$ 6,997,321

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

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Devils Lake, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2012

Total *Fund Balances* for Governmental Funds \$ 5,152,010

Total *net assets* reported for governmental activities in the statement of net assets
is different because:

Capital assets used in governmental activities are not financial resources
and are not reported in the governmental funds.

Cost of Capital Assets	\$ 18,319,469	
Less: Accumulated Depreciation	<u>(8,407,090)</u>	
Net Capital Assets		9,912,379

Property taxes receivable will be collected after year-end, but are not available
soon enough to pay for the current period's expenditures and therefore are
reported as deferred revenues in the funds. 195,315

Long-term liabilities applicable to the school district's governmental activities
are not due and payable in the current period and accordingly are not reported
as fund liabilities. Interest on long-term debt is not accrued in governmental
funds, but rather is recognized as an expenditure when due. All liabilities
both current and long-term- are reported in the statement of net assets
Balances at June 30, 2012 are:

General Obligation Bonds Payable	\$ (3,000,000)	
Lease Revenue Bonds Payable	(340,000)	
Loan Payable	(3,500)	
Special Assessments Payable	(206,121)	
Interest Payable	(10,139)	
Early Retirement Payable	(243,354)	
Compensated Absences Payable	<u>(35,839)</u>	
Total Long-Term Liabilities		<u>(3,838,953)</u>

Total Net Assets of Governmental Activities \$ 11,420,751

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

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Devils Lake, North Dakota

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	General	Building Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Local sources	\$ 3,311,878	\$ 256,659	\$ 832,379	\$ 4,400,916
State sources	12,922,120	-	5,242	12,927,362
Federal sources	1,997,113	-	490,814	2,487,927
Other sources	-	-	424	424
Total Revenues	\$ 18,231,111	\$ 256,659	\$ 1,328,859	\$ 19,816,629
<u>Expenditures:</u>				
Current:				
Regular instruction	\$ 7,835,849	\$ -	\$ -	\$ 7,835,849
Special education	1,704,432	-	-	1,704,432
Vocational education	1,130,968	-	-	1,130,968
Federal programs	1,360,593	-	-	1,360,593
District wide services	987,155	-	-	987,155
Administration	645,195	-	-	645,195
School food services	-	-	921,454	921,454
Operations and maintenance of plant	1,588,961	15,337	-	1,604,298
Transportation	826,259	-	-	826,259
Co-curricular activities	1,094,542	-	-	1,094,542
Other programs and services	262,538	-	-	262,538
Debt Service:				
Principal	108,500	115,000	51,751	275,251
Interest	17,163	1,488	71,137	89,788
Trustee fees	1,510	-	750	2,260
Total Expenditures	\$ 17,563,665	\$ 131,825	\$ 1,045,092	\$ 18,740,582
Excess (Deficiency) of Revenues Over Expenditures	\$ 667,446	\$ 124,834	\$ 283,767	\$ 1,076,047
<u>Other Financing Sources (Uses):</u>				
Transfers in	\$ -	\$ -	\$ 80,000	\$ 80,000
Transfers out	-	(80,000)	-	(80,000)
Total Other Financing Sources and Uses	\$ -	\$ (80,000)	\$ 80,000	\$ -
Net Change in Fund Balances	\$ 667,446	\$ 44,834	\$ 363,767	\$ 1,076,047
Fund Balances - July 1	\$ 2,945,325	\$ 240,133	\$ 890,505	\$ 4,075,963
Fund Balances - June 30	\$ 3,612,771	\$ 284,967	\$ 1,254,272	\$ 5,152,010

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

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Devils Lake, North Dakota

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Net Change in *Fund Balances* - Total Governmental Funds \$ 1,076,047

The change in net assets reported for governmental activities in the statement of activities is 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 expense exceeded capital outlay in the current year.

Capital Asset Additions	\$ 267,304	
Current Year Depreciation Expense	<u>(404,372)</u>	(137,068)

Miscellaneous transactions involving capital assets caused a decrease in net assets equity.

Loss on Disposals of Capital Assets		(1,340)
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The issuance of long-term debt provides current financial resources to governmental funds, however, the debt principal issued increases liabilities in the statement of net assets. This is the amount by which debt repayment exceeded special assessments issued.

Bond Principal Payments	\$ 220,000	
Special Assessment Payments	51,751	
Loan Payments	<u>3,500</u>	275,251

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net Decrease in Early Retirement Payable	\$ 6,546	
Net Increase in Compensated Absences Payable	(13,678)	
Net Decrease in Interest Payable	<u>2,270</u>	(4,862)

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of the decrease in taxes receivable.

(109,488)

Change in Net Assets of Governmental Activities \$ 1,098,540

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

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Devils Lake, North Dakota

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
June 30, 2012

	<u>Agency Funds</u>
<u>Assets:</u>	
Cash	\$ 868,878
Pre-Paid Expense	8,593
Accounts Receivable	<u>233,602</u>
Total Assets	<u>\$ 1,111,073</u>
<u>Liabilities:</u>	
Salaries and benefits payable	\$ 38,239
Contracts payable	49,265
Due to other units	601,075
Due to student activities groups	<u>422,493</u>
Total Liabilities	<u>\$ 1,111,073</u>

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

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Devils Lake, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Devils Lake Public School District No. 1, Devils Lake, North Dakota, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the school's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of the Devils Lake Public School District No. 1. The school district has considered all potential component units for which the school district is financially accountable and other organizations for which the nature and significance of their relationships with the school district such that exclusion would cause the school district's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the Devils Lake Public School District No. 1 to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on Devils Lake Public School District No. 1.

Based on these criteria, there is one blended component unit to be included within the Devils Lake Public School District No. 1 reporting entity.

Blended component Unit: Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from this unit is combined with data from the primary government.

Devils Lake Public School Building Authority – the school board as a legally separate entity created the building authority. Its purpose is to promote the educational system of the district by providing financing for use by the school in altering, repairing, maintaining or constructing buildings and making any improvements connected to school buildings. The school board is the governing board of the building authority.

Complete financial statements for this component unit may be obtained by writing to: Scott Privratsky, Devils Lake Public School District No. 1, 1601 College N., Devils Lake, ND 58301.

B. Basis of Presentation, Basis of Accounting

Government-wide statements: The statement of net assets and the statement of activities display information about the primary government, Devils Lake Public School District No. 1, and the blended component unit. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues 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) fees and charges paid by the recipients of goods or 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, interest and non-restricted grants and contributions are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the school district's funds including its fiduciary funds and blended component unit. Separate statements for each fund category-*governmental* and *fiduciary*-are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The School District reports the following major governmental fund:

General Fund. This is the School District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Building Fund. This fund accounts for most financial resources and expenditures related to capital projects.

The School District reports the following fund type:

Agency Funds. These fund accounts for assets by the School District in a custodial capacity as an agent on behalf of others. The School District's agency fund is used to account for various deposits of the student activity funds and to other governmental units.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide and Fiduciary Fund Financial Statements. The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the School District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the School District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the School District's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources, as they are needed.

D. Cash and Investments

Cash includes amounts in demand deposits and money market accounts. Cash equivalents on the statement of cash flows consist of certificates of deposit with a maturity of 3 months or less. Deposits must either be deposited with the Bank of North Dakota or in other financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the uninsured balance.

The school district did not have any investments during the year ended June 30, 2012.

E. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of is not capitalized.

Capital assets are depreciated using the straight-line method of the following estimated useful lives:

Asset Class	Useful Life
Land	Indefinite
Buildings	50
Improvements	10-50
Playground Equipment	20
Vehicles	15
Equipment/Furniture	10
Copy Machines	5

F. Compensated Absences

Vested or accumulated unused personal leave for qualified employees is reported in the government-wide statement of net assets. Each teacher is credited with three days of personal leave at the beginning of each year. Each teacher is allowed to accumulate personal leave of up to a total of 7 days and teachers are paid \$100 for each unused personal day. Vested and accumulated personal leave is reported in the government-wide statement of net assets.

G. Long-Term Obligations

In the government-wide financial statements, long term debt and other long-term obligations, such as compensated absences and early retirement payable, are reported in the governmental activities statement of net assets. Bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the straight-line method. If amounts are not material, they are recognized in the current period.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

H. Fund Balances / Net Assets Equity

Fund Balances:

Prior to GASB Statement No. 54, in the fund financial statements, the governmental funds reported reservations of fund balances for amounts that were not available for appropriation or were legally restricted by outside parties for use for a specific purpose. Designations of fund balances represented tentative management plans that were subject to change. GASB Statement No. 54 established new fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds.

Fund Balance Spending Policy:

It is the policy of the Devils Lake Public School District No. 1 to spend restricted resources first, followed by unrestricted resources. It is also the policy of the School District to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

Minimum Fund Balance Policy:

The Devils Lake Public School District budget committee established a minimum of 10% general fund carryover balance target several years ago to help with financial stability. The minimum of 10% fund balance is a part of the budget recommendation adopted by the school board each fiscal year. This level provides sufficient unassigned resources to avoid short-term cash flow borrowing for the district. Unassigned general fund balance of \$3,269,271 at June 30, 2012 represented 18.6% of FY2012 expenditures

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions

On March 11, 2009 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for fiscal periods that begin after June 15, 2010. This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below.

CLASSIFICATION	DEFINITION	EXAMPLES
Nonspendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables, endowment funds.
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments. (b) Imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose.
Committed	A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the School District Board of Directors. Formal action is required to be taken to establish, modify or rescind a fund balance commitment.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.

Continued on next page....

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Notes to the Financial Statements - Continued

CLASSIFICATION	DEFINITION	EXAMPLES
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the business manager.	By business manager action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is fund balance that has not been reported in any other classification. (a) The General Fund is the only fund that can report a positive unassigned fund balance	Available for any remaining general fund expenditure.

Non-spendable fund balance (general fund):

Prepaid items total \$169,106 in the general fund at June 30, 2012 representing non-spendable fund balance.

Restricted Fund Balances – consist of the following items at June 30, 2012:

General Fund (major fund) – restricted by enabling legislation (annual budget - levy):

- (a) Bond payments restricted by bond indenture in the general fund balance – consists of a Revenue Bond – totaling \$340,000;
- (b) Loan payments – restricted by a loan covenant – \$3,500;

Building Fund (major fund) – restricted by enabling legislation & bond indenture):

- (a) Building authority project fund balance – restricted by bond indentures for construction – consists of bond: 1991 Construction Bond – totaling \$284,967;

Debt Service Fund (nonmajor fund – restricted by enabling legislation - levy):

- (a) Special assessments levy fund balance – restricted by specified tax levy – \$65,436;
- (b) Bond payments restricted by bond indenture and specified tax levies reported in the nonmajor debt service fund – consists of 2005 Qualified Zone Academy and 2009 Qualified School Construction Bond – totaling \$562,205;

Assigned Fund Balances – consist of the following at June 30, 2012:

- (a) Food Service Fund assigned balance of \$94,017. This is used only for Food Service purposes.
- (b) Special Reserve Fund assigned balance of \$532,614 is designed to provide cash flow to the school district when general fund reserves are spent. This traditionally happens at the end of December, before the next year taxes are collected. If the special reserve is not needed for cash flow, there is a provision in the law that allows the School Board to transfer up to ½ of the balance to the general fund to be used for any allowable purpose. For the past few years, Devils Lake PSD has not made any of these transfers from the special reserve to the general fund.

Net Assets Equity:

Invested in capital assets, net of related debt, is reported for capital assets less accumulated depreciation and any related debt (bonds payable) issued to construct them. The resources needed to repay this related debt must be provided from other sources, since the capital assets are not used to liquidate these liabilities. These assets are not available for future spending.

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

Restrictions of net assets equity, shown in the Statement of Net Assets, are due to restricted tax levies and bond indenture requirements for our capital projects. The restriction in debt service is for the Bluestem callable bond payable in December of 2012.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
 Notes to the Financial Statements - Continued

Unrestricted net assets equity is primarily unrestricted amounts related to the general fund. The unrestricted net assets are available to meet the district's ongoing obligations.

I. Interfund Transactions

In the governmental fund statements, transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except reimbursements, are reported as transfers.

In the government-wide financial statements, interfund transactions have been eliminated.

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The school board amended the school district budget for 2012 as follows:

	REVENUES		
	Original Budget	Amendments	Amended Budget
Major Fund:			
General	\$18,333,749	\$ 15,164	\$18,348,883

	EXPENDITURES		
	Original Budget	Amendments	Amended Budget
Major Fund:			
General	\$18,224,637	\$15,164	\$18,239,801

It was noted that no funds were overspent for the year ended June 30, 2012.

NOTE 3: DEPOSITS AND INVESTMENTS

In accordance with North Dakota Statutes, the Devils Lake Public School District maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota. Whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by any other state of the United States or such other securities approved by the banking board.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Notes to the Financial Statements - Continued

At year ended June 30, 2012, the school district's carrying amount of deposits was \$6,276,482 and the bank balances totaled \$6,690,590. Of the bank balances, \$1,284,650 was covered by Federal Depository Insurance. The remaining bank balances totaling \$5,405,940 were collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk:

The school district may invest idle funds as authorized in North Dakota Statutes, as follows:

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
- (b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- (c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.

As of June 30, 2012, the school district had no certificates of deposit.

Interest Rate Risk:

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

Concentration of Credit Risk:

The school does not have a limit on the amount it may invest in any one issuer

NOTE 4: TAXES RECEIVABLE

The taxes receivable represents the past three years of uncollected current and delinquent taxes. No allowance has been established for uncollectible taxes receivable.

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Any material tax collections are distributed after the end of each month.

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments. The first installment includes one-half of the real estate taxes and all the special assessments and the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount on property taxes is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the discount on the property taxes.

NOTE 5: INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of reimbursements due for expenses in the operation of various school programs. These amounts consist of a mix of State and Federal dollars.

NOTE 6: DUE FROM COUNTY TREASURER

The amount due from county treasurer consists of the cash on hand for taxes collected but not remitted to the school at June 30, 2012.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Notes to the Financial Statements - Continued

NOTE 7: PREPAID EXPENSES

Prepaid expenses consist of book purchases (paid employer's and employee's NDPERS contributions) in the general fund paid prior to year end but not received (work had not been performed by employees yet) until the next fiscal year.

NOTE 8: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2012:

	Balance July 1	Adjust.	Increases	Decreases	Balance June 30
Governmental Activities:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 170,100	\$ -	\$ -	\$ -	\$ 170,100
<i>Capital assets being depreciated:</i>					
Buildings	\$15,665,409	\$ -	\$148,818	\$ -	\$15,814,227
Vehicles	1,709,363	-	80,755	-	1,790,118
Copy Machines	39,386	-	17,240	(13,739)	42,887
Playground Equipment	129,700	-	-	-	129,700
Equipment/Furniture	337,466	14,480	20,491	-	372,437
Total Capital Assets, Being Depreciated	\$17,881,324	\$14,480	\$ 267,304	\$(13,739)	\$18,149,369
<i>Less Accumulated Depreciation for:</i>					
Buildings	\$ 6,882,229	\$ -	\$ 263,621	\$ -	\$ 7,145,850
Vehicles	810,522	-	105,708	-	916,230
Copy Machines	23,340	-	8,580	(12,398)	19,522
Playground Equipment	55,720	-	6,235	-	61,955
Equipment/Furniture	241,256	2,050	20,227	-	263,533
Total Accumulated Depreciation	\$ 8,013,067	\$ 2,050	\$ 404,371	\$(12,398)	\$ 8,407,090
Total Capital Assets Being Depreciated, Net	\$ 9,868,257	\$12,430	\$(137,067)	\$ (1,341)	\$ 9,742,279
Governmental Activities Capital Assets, Net	\$10,038,357	\$12,430	\$(137,067)	\$ (1,341)	\$ 9,912,379

Depreciation expense was charged to functions/programs of the school district as follows:

Governmental Activities:	Amounts
Regular Instruction	\$211,312
Special Education	17,826
Vocational Education	25,907
Administration	7,604
Food Services	10,217
Operations/Maintenance	16,925
Transportation	77,663
Co-Curricular	42,917
Total Depreciation Expense - Governmental Activities	\$404,371

NOTE 9: ACCOUNTS PAYABLE

Accounts payable consists of amounts owed for goods and services received prior to June 30, 2012 and chargeable to the appropriations for the year then ended, but paid subsequent to that date.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Notes to the Financial Statements - Continued

NOTE 10: SALARIES, BENEFITS AND CONTRACTS PAYABLE

Salaries and contracts payable consists of salaries earned by employees and teachers but not paid until after year-end. It also consists of benefits owed to federal, state, and private agencies for amounts withheld from teacher's salaries as of June 30, 2012.

NOTE 11: DEFERRED REVENUES

Deferred revenues on the fund financial statements consist of amounts for taxes receivable for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable but not available.

NOTE 12: LONG-TERM DEBT

Changes in Long-Term Liabilities - During the year ended June 30, 2012, the following changes occurred in liabilities reported in long-term liabilities:

	Balance July 1	Increases	Decreases	Balance June 30	Due Within One Year
General Obligation Bonds	\$3,115,000	\$ -	\$115,000	\$3,000,000	\$ -
Revenue Bonds	445,000	-	105,000	340,000	105,000
Special Assessments	257,872	-	51,751	206,121	51,751
Loans	7,000	-	3,500	3,500	3,500
Early Retirement Payable	249,899	-	6,545	243,354	151,160
Compensated Absences *	22,161	13,678	-	35,839	3,584
TOTAL	\$4,096,932	\$13,678	\$281,796	\$3,828,814	\$314,995

* - The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions at a reasonable cost.

Outstanding debt at June 30, 2012 consists of the following individual issues (excluding capital leases, early retirement payable and compensated absences):

General Obligation Bonds Payable:

\$2,500,000 Building Bonds of 2009, due in semi-annual installments of \$28,125 through December 2024; interest at 2.25%. \$2,500,000

\$500,000 Qualified Zone Academy Bonds of 2005, due in annual installments of \$30,000 to \$80,000 through 2015 – deposited into an escrow account; interest at 0%. 500,000

Total General Obligation Bonds Payable \$3,000,000

Special Assessments:

Special Assessments Payable represents special assessment taxes levied by the City of Devils Lake, ND, against the school district for the district's share of the benefit derived from city funded improvements. The special assessments payable are due in annual installments of \$23 to \$38,983 through 2016; interest at 5.5% to 7.0%. \$ 206,121

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Notes to the Financial Statements - Continued

Revenue Bonds Payable:

\$1,175,000 2004 Revenue Refunding Bonds, due in annual installments of \$90,000 to \$120,000 through May 2015; with interest at 2.0% to 4.125%. \$ 340,000

Loans Payable:

\$21,000 Loan for a 2006 Ford Fusion, due in one annual installment of \$3,500 in August 2013; with no interest. \$ 3,500

Debt service requirements on long-term debt (excluding early retirement payable and compensated absences payable) at June 30, 2012 are as follows:

Primary Government - Governmental Activities								
Year Ending June 30	GO Bonds Payable		Revenue Bonds		Special Assessments		Loans	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ -	\$ 56,250	\$105,000	\$13,488	\$ 51,751	\$11,977	\$3,500	-
2014	-	56,250	115,000	9,550	51,751	9,067	-	-
2015	500,000	56,250	120,000	4,950	12,767	6,157	-	-
2016	-	56,250	-	-	12,578	5,391	-	-
2017	-	56,250	-	-	12,556	4,636	-	-
2018-2022	-	281,250	-	-	54,906	11,909	-	-
2023-2027	2,500,000	140,625	-	-	9,812	884	-	-
Total	\$3,000,000	\$703,125	\$340,000	\$27,988	\$206,121	\$50,021	\$3,500	\$ -

NOTE 13: RISK MANAGEMENT

The Devils Lake Public School District No. 1 is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986 state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The district pays an annual premium to NDRIF for its general liability, automobile insurance coverage and inland marine. The coverage by NDRIF is limited to losses of two million dollars per occurrence for general liability and automobile and \$131,105 for mobile equipment and portable property. The district also insures machinery and equipment with Hartford Steam Boiler Inspection and Insurance Company. Coverage is limited to \$21,177,184.

The Devils Lake Public School District No. 1 also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The school district pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of two million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides political subdivision with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The Devils Lake Public School District No. 1 has workers compensation with the Workforce, Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 14: PENSION PLANS

1. North Dakota Teacher's Fund For Retirement (TFFR)

The Devils Lake Public School District No. 1 contributes to the North Dakota Teacher's Fund for Retirement (TFFR); a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota for its certified staff. TFFR provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with chapter 15-39.1 of the North Dakota Century Code. TFFR issues a publicly available financial report that includes financial statements and required supplementary information for TFFR. That report may be obtained by writing to Teacher's Fund for Retirement, 1930 Burnt Boat Drive, Box 7100, Bismarck, ND, 58507-7100.

Plan members are required to contribute 7.75% of their annual covered salary and the school district is required to contribute 8.75% of the teacher's salary. The school district has agreed to pay 100% of the member assessments in lieu of a salary increase. The contribution requirements of plan members and the school district are established and may be amended by the State legislature. The school district's contributions to TFFR for the fiscal years ending June 30, 2012, 2011, and 2010 were \$1,375,965, \$1,390,689, and \$1,289,295, respectively, equal to the required contributions for the year.

2. North Dakota Public Employees' Retirement System

The school district contributes to the North Dakota Public Employees' Retirement System (NDPERS); a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota for its non-certified staff. NDPERS provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. NDPERS issues a publicly available financial report that includes financial statements and required supplementary information for NDPERS. That report may be obtained by writing to NDPERS, 400 E Broadway, Suite 505, P.O. Box 1214, West Fargo, ND, 58502-1214.

Plan members are required to contribute 4% of their annual salary. The school district is required to contribute 5.26% of the employee's salary which consists of 4.12% for employee retirement and 1.14% for the retiree health benefits fund. The school district has agreed to pay 100% of the member assessments. The contribution requirements of plan members and the school district are established and may be amended by the State Legislature. The school district's and employee's contributions to NDPERS for the years ending June 30, 2012, 2011, and 2010 were \$269,464, \$220,148, and \$223,334, respectively, equal to the required contributions for the year.

NOTE 15: POST-RETIREMENT BENEFITS

EARLY RETIREMENT AGREEMENTS

The Devils Lake Public School District offers early retirement payments to professional employees under School Board policy "Retirement Incentive for Professional Staff Members". Under this policy teachers and administrators are eligible for a pre-determined one-time payment based on a proportion of the current annual salary at the time of retirement. To be eligible for the plan an employee must meet one of the following requirements:

- Teaching employee has attained the earliest occurring of the following eligibility standards of the Teacher's Fund for retirement (TFFR) of North Dakota for a normal (unreduced service retirement: the employee has a combined age and years of service credit equal to 85 as determined by TFFR; or, the employee has attained age 65.
- Professional staff members must have completed 15 years of consecutive full-time certified employment in the school district to be eligible for retirement under NDPERS.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Notes to the Financial Statements - Continued

A liability for remaining early retirement payments at year-end left is reported in the statement of net assets. For the year ended June 30, 2012 the school district had nine employees who received this benefit for a cost to the school district of \$134,573.

NOTE 16: OPERATING LEASES

The Devils Lake Public School District leases copiers under non-cancelable operating leases. Total costs for such leases were \$23,040 for the year ended June 30, 2012. The future minimum lease payments for these leases are as follows:

Payments	Amount
FY2013	\$1,920

NOTE 17: TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the financial statements for the year ended June 30, 2012:

Fund	Transfers In	Transfers Out	Explanation
Building Fund	\$ -	\$80,000	Bond principal & interest transfers into an escrow account
2005 Qualified Bonds (Off-book Fund)	\$80,000	-	
Total Transfers	\$80,000	\$80,000	

NOTE 18: PRIOR PERIOD ADJUSTMENTS

The Devils Lake Public School District required prior period adjustments to capital assets and accumulated depreciation in the net assets statement due to incorrectly not including two assets that were not added into the asset listing in a timely matter. Net adjustments increased beginning net assets equity by a total of \$12,430. The adjustments are included below:

Governmental Activities:	Amounts
Beginning Net Assets, as previously reported	\$10,309,781
Adjustments to restate the July 1, 2011 net assets:	
Capital Assets – Equipment/Furniture	14,480
Accumulated Depreciation – Equipment/Furniture	(2,050)
Net Assets July 1, as restated	\$10,322,211

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Devils Lake, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Local sources	\$ 3,231,300	\$ 3,231,300	\$ 3,311,878	\$ 80,578
State sources	12,873,352	12,888,516	12,922,120	33,604
Federal sources	2,028,067	2,028,067	1,997,113	(30,954)
Other sources	201,000	201,000	-	(201,000)
Total Revenues	\$ 18,333,719	\$ 18,348,883	\$ 18,231,111	\$ (117,772)
<u>Expenditures:</u>				
<u>Current:</u>				
Regular instruction	\$ 8,294,060	\$ 8,294,060	\$ 7,835,849	\$ 458,211
Special education	1,801,616	1,801,616	1,704,432	97,184
Vocational education	1,148,970	1,148,970	1,130,968	18,002
Federal programs	1,374,125	1,374,125	1,360,593	13,532
District wide services	982,795	982,795	987,155	(4,360)
Administration	675,043	675,043	645,195	29,848
Operations and maintenance	1,683,800	1,683,800	1,588,961	94,839
Transportation	809,990	809,990	826,259	(16,269)
Co-curricular activities	1,163,890	1,163,890	1,094,542	69,348
Other programs & services	305,512	305,512	262,538	42,974
<u>Debt Service:</u>				
Principal	-	-	108,500	(108,500)
Interest	-	-	17,163	(17,163)
Total Expenditures	\$ 18,239,801	\$ 18,239,801	\$ 17,563,665	\$ 676,136
Excess (Deficiency) of Revenues Over Expenditures	\$ 93,918	\$ 109,082	\$ 667,446	\$ 558,364
Fund Balances - July 1	\$ 2,903,379	\$ 2,903,379	\$ 2,945,325	\$ 41,946
Fund Balances - June 30	\$ 2,997,297	\$ 3,012,461	\$ 3,612,771	\$ 600,310

The accompanying required supplementary information notes are an integral part of this schedule.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Devils Lake, North Dakota

BUDGETARY COMPARISON SCHEDULE
BUILDING FUND
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Local sources	\$ 246,000	\$ 246,000	\$ 256,659	\$ 10,659
<u>Expenditures:</u>				
Current:				
Operations and maintenance	\$ 45,000	\$ 45,000	\$ 15,337	\$ 29,663
Debt Service:				
Principal	195,000	195,000	115,000	80,000
Interest	6,000	6,000	1,488	4,512
Total Expenditures	\$ 246,000	\$ 246,000	\$ 131,825	\$ 114,175
Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ -	\$ 124,834	\$ 124,834
<u>Other Financing Sources (Uses):</u>				
Transfers out	\$ -	\$ -	\$ (80,000)	\$ (80,000)
Net Changes in Fund Balances	\$ -	\$ -	\$ 44,834	\$ 44,834
Fund Balances - July 1	\$ (722,018)	\$ (722,018)	\$ 240,133	\$ 962,151
Fund Balances - June 30	\$ (722,018)	\$ (722,018)	\$ 284,967	\$ 1,006,985

The accompanying required supplementary information notes are an integral part of this schedule.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Devils Lake, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2012

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

The Board of Education adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States for the general fund, special revenue funds, debt service funds, and capital project funds.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- The annual budget must be prepared and school district taxes must be levied on or before the fifteenth day of August of each year.
- The taxes levied must be certified to the county auditor by August twenty-fifth. The governing body of the school district may amend its tax levy and budget on or before the tenth day of October of each year but the certification must be filed with the county auditor within the time limitations as outlined in NDCC section 57-15-31.1.
- The operating budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the business manager at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.
- All appropriations lapse at year-end.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Devils Lake, North Dakota

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2012

	Food Service Fund	Special Reserve	Sinking & Interest Building Bonds 2009	Special Assessments	2005 Bonds	Total Nonmajor Governmental Funds
ASSETS:						
Cash and cash equivalents	\$ 99,355	\$ 531,484	\$ 296,368	\$ 64,261	\$ -	\$ 991,468
Cash with fiscal agent	-	-	-	-	262,402	262,402
Intergovernmental receivable	4,811	-	-	-	-	4,811
Due from county treasurer	-	1,130	3,435	1,175	-	5,740
Taxes receivable	-	4,332	13,117	4,506	-	21,955
Total Assets	\$ 104,166	\$ 536,946	\$ 312,920	\$ 69,942	\$ 262,402	\$ 1,286,376
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Salaries & benefits payable	\$ 10,149	\$ -	\$ -	\$ -	\$ -	\$ 10,149
Deferred revenue	-	4,332	13,117	4,506	-	21,955
Total Liabilities	\$ 10,149	\$ 4,332	\$ 13,117	\$ 4,506	\$ -	\$ 32,104
Fund Balances:						
Restricted for:						
Debt Service	\$ -	\$ -	\$ 299,803	\$ 65,436	\$ 262,402	\$ 627,641
Assigned to:						
Special revenue fund (special reserve)	-	532,614	-	-	-	532,614
Special revenue fund (food service)	94,017	-	-	-	-	94,017
Total Fund Balances	\$ 94,017	\$ 532,614	\$ 299,803	\$ 65,436	\$ 262,402	\$ 1,254,272
Total Liabilities and Fund Balances	\$ 104,166	\$ 536,946	\$ 312,920	\$ 69,942	\$ 262,402	\$ 1,286,376

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Devils Lake, North Dakota

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	Food Service Fund	Special Reserve	Sinking & Interest Building Bonds 2009	Special Assessments	2005 Off-book Bonds	Total Nonmajor Governmental Funds
<u>Revenues:</u>						
Local sources	\$ 430,901	\$ 78,465	\$ 244,878	\$ 78,135	\$ -	\$ 832,379
State sources	5,242	-	-	-	-	5,242
Federal sources	490,814	-	-	-	-	490,814
Other sources	-	-	-	-	424	424
Total Revenues	\$ 926,957	\$ 78,465	\$ 244,878	\$ 78,135	\$ 424	\$ 1,328,859
<u>Expenditures:</u>						
Current:						
School food services	\$ 921,454	\$ -	\$ -	\$ -	\$ -	\$ 921,454
Debt Service:						
Principal	-	-	-	51,751	-	51,751
Interest and service charges	-	-	56,250	14,887	-	71,137
Trustee fees	-	-	750	-	-	750
Total Expenditures	\$ 921,454	\$ -	\$ 57,000	\$ 66,638	\$ -	\$ 1,045,092
Excess (Deficiency) of Revenues Over Expenditures	\$ 5,503	\$ 78,465	\$ 187,878	\$ 11,497	\$ 424	\$ 283,767
<u>Other Financing Sources (Uses):</u>						
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ 80,000	\$ 80,000
Net Change in Fund Balances	\$ 5,503	\$ 78,465	\$ 187,878	\$ 11,497	\$ 80,424	\$ 363,767
Fund balances - July 1	\$ 88,514	\$ 454,149	\$ 111,925	\$ 53,939	\$ 181,978	\$ 890,505
Fund balances - June 30	\$ 94,017	\$ 532,614	\$ 299,803	\$ 65,436	\$ 262,402	\$ 1,254,272

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Devils Lake, North Dakota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>		
<u>Passed through the State Department of Public Instruction:</u>		
National School Lunch Program - Cash	10.555	\$ 321,231
National School Lunch Program - Commodities	10.555	48,415
School Breakfast Program	10.553	105,033
Child Nutrition Cluster		** \$ 474,679
Fresh Fruit and Vegetable Program	10.582	\$ 16,121
Total U.S. Department of Agriculture		\$ 490,800
<u>U.S. DEPARTMENT OF EDUCATION:</u>		
Direct Assistance:		
Impact Aid	84.041	** \$ 312,531
Title VIIA - Indian Education - Grants to Local Education Agencies	84.060	93,181
<u>Passed through the State Department of Public Instruction:</u>		
Title I, Part A - Grants to LEA's	84.010	914,573
Title I ARRA Funds	84.389A	10,000
Title I Cluster		** \$ 924,573
Title IV - 21st Century	84.287C	** 594,611
Title IIA - Improving Teacher Quality State Grants	84.367A	261,122
School Improvement Grants, Recovery Grant	84.388A	29,604
<u>Passed through the State Board of Vocational Education:</u>		
Vocational Education Basic Grants to States	84.048	116,037
Total U.S. Department of Education		\$ 2,331,659
Total Expenditure of Federal Awards		\$ 2,822,459

** - Major Program

NOTE 1: BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Devils Lake Public School District under programs of the federal government for the year ended December 31, 2011. The information in the schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Devils Lake Public School District, it is not intended to and does not present the financial position or changes in net assets of the Devils Lake PSD.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribe Governments*, wherein certain types of expenditures are allowable or are limited as to reimbursement.

STATE AUDITOR

ROBERT R. PETERSON
Phone (701) 328-2241
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Local Government Division:
FARGO OFFICE
MANAGER – DAVID MIX
Phone: (701) 239-7252 Fax: (701) 239-7251

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

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
Devils Lake Public School District No. 1
Devils Lake, North Dakota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Devils Lake Public School District No. 1, Devils Lake, North Dakota, as of and for the year ended June 30, 2012, which collectively comprise the school district's basic financial statements and have issued our report thereon dated November 13, 2012. 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

Management of the Devils Lake Public School District No. 1 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Devils Lake Public School District No. 1's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Devils Lake Public School District No. 1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Devils Lake Public School District No. 1's internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Devils Lake Public School District No. 1'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*.

This report is intended solely for the information and use of management, the School Board, others within the school district, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Bob Peterson".

Robert R. Peterson
State Auditor

November 13, 2012

STATE AUDITOR

ROBERT R. PETERSON
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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Independent Auditor's Report

School Board
Devils Lake Public School District No. 1
Devils Lake, North Dakota 58301

Compliance

We have audited the Devils Lake Public School District No. 1's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Devils Lake Public School District No. 1's major federal programs for the year ended June 30, 2012. Devils Lake Public School District No. 1's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Devils Lake Public School District No. 1's management. Our responsibility is to express an opinion on the Devils Lake Public School District No. 1's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Devils Lake Public School District No. 1's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Devils Lake Public School District No. 1's compliance with those requirements.

In our opinion, the Devils Lake Public School District No. 1 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

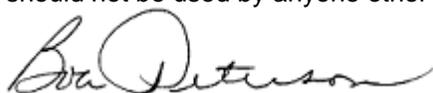
Internal Control Over Compliance

Management of the Devils Lake Public School District No. 1 is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Devils Lake Public School District No. 1's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Devils Lake Public School District No. 1's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of management, the School Board, others within the school district, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Bob Peterson".

Robert R. Peterson
State Auditor

November 13, 2012

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
 Devils Lake, North Dakota
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? _____ Yes X No

Significant deficiencies identified not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal Control over major programs:

Material weaknesses identified? _____ Yes X No

Significant deficiencies identified not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? _____ Yes X No

Identification of major programs:

CFDA Numbers	Name of Federal Program Or Cluster
10.555, 10.553, 10.582	Child Nutrition Cluster
84.041	Impact Aid
84.010, 84.389A	Title I Cluster
84.287C	Title IV 21 st Century

Dollar threshold used to distinguish between Type A and B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Devils Lake, North Dakota

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012

DEPARTMENT OF EDUCATION

Finding 2011-01: Page 33

CFDA # 10.555:

U.S. DEPARTMENT OF AGRICULTURE
Department of Public Instruction
National School Lunch Program, Recovery
Child Nutrition Cluster

CFDA # 10.553:

U.S. DEPARTMENT OF AGRICULTURE
Department of Public Instruction
National School Breakfast Program
Child Nutrition Cluster

CFDA # 84.010:

U.S. DEPARTMENT OF EDUCATION
Department of Public Instruction
Title I Grants to Local Education Agencies
Title I Cluster

CFDA # 84.389A:

U.S. DEPARTMENT OF EDUCATION
Department of Public Instruction
Title I Grants to Local Education Agencies, Recovery
Title I Cluster

Questioned Cost: Unknown

Recommendation: We recommend that an authorize representative or an authorized designee at the Devils Lake Public School District for the Child Nutrition Cluster program verify by November 15th of applications on hand on October 1st, at least 3% of the total free and reduced "error-prone" meal applications within guidelines prescribed in program regulations. Information used for verification should be approved written evidence that includes, but is not necessarily limited to, wage stubs.

Status: Implemented. Per our testing of the Child Nutrition Cluster conducted in the 2012 single audit of Devils Lake Public School District, it was noted that the school district is now in compliance with our recommendation of verifying free and reduced meal applications.