

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3  
SOLEN, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

## TABLE OF CONTENTS

	<b>Page</b>
<b>ROSTER OF SCHOOL OFFICIALS (UNAUDITED)</b>	1
<b>INDEPENDENT AUDITOR'S REPORT</b>	2
<b>BASIC FINANCIAL STATEMENTS</b>	
Statements of Net Position – Modified Cash Basis	4
Statements of Activities – Modified Cash Basis	5
Balance Sheets - Governmental Funds – Modified Cash Basis	7
Statements of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds – Modified Cash Basis	9
Statements of Fiduciary Assets and Liabilities – Agency Fund – Modified Cash Basis	11
Notes to Financial Statements	12
<b>SUPPLEMENTARY INFORMATION</b>	
Schedules of Expenditures of Federal Awards	27
<b>INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</b>	28
<b>INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133</b>	30
Schedule of Findings and Questioned Costs	33
Schedule of Prior Year Findings	42
Corrective Action Plan	45

SOLE PUBLIC SCHOOL DISTRICT NO. 3  
ROSTERS OF SCHOOL OFFICIALS (UNAUDITED)  
JUNE 30, 2012 AND 2011

Current

Louis DeCouteau, Sr.	President
Pete Red Tomahawk	Vice President
Sue Isbell	Board Member
Gail Uses Arrow	Board Member
Stephanie Tikanye	Board Member
Lois Two Bears	Board Member
Maxine Thunderhawk	Board Member
Justin Fryer	Superintendent
Magdalene Fasthorse	Business Manager

June 30, 2012

Louis DeCouteau, Sr.	President
Robert Fool Bear, Sr.	Vice President
Bryan Silk	Board Member
Sue Isbell	Board Member
Florestine Grant	Board Member
Joseph Ironroad	Board Member
Gail Uses Arrow	Board Member
Judy Zins	Superintendent
Magdalene Fasthorse	Business Manager

June 30, 2011

Louis DeCouteau, Sr.	President
Sue Isbell	Vice President
Evans Elk	Board Member
Robert Fool Bear, Sr.	Board Member
Florestine Grant	Board Member
Joseph Ironroad	Board Member
Gail Uses Arrow	Board Member
Judy Zins	Superintendent
Magdalene Fasthorse	Business Manager



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

To the School Board  
Solen Public School District No. 3  
Solen, North Dakota

### **Report on the Financial Statements**

We were engaged to audit the accompanying modified cash basis financial statements of the governmental activities, each major fund and the aggregated remaining fund information of Solen Public School District No. 3, as of and for the years ended June 30, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Solen Public School District No. 3's basic financial statements as listed in the table of contents

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for the audit opinions.

### **Basis for Disclaimer of Opinions**

Detailed financial records and supporting data were not available for our audits of the years ended June 30, 2012 and 2011. Therefore, we were not able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions.

### **Disclaimer of Opinions**

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for the audit opinions. Accordingly, we do not express opinions on the modified cash financial statements referred to in the first paragraph.

## **Basis of Accounting**

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Disclaimer of Opinion of Supplementary Information*

Our audits were conducted for the purpose of forming opinions on the modified cash financial statements that collectively comprise Solen Public School District No. 3's basic financial statements. The schedules of expenditures of federal awards are presented for purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. The schedules of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### *Other Information*

The Rosters of School Officials have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express opinions or provide any assurance on these schedules.

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

In accordance with Government Auditing Standards, we have also issued our report dated April 18, 2018 on our consideration of Solen Public School District No. 3'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Solen Public School District No. 3's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.  
BISMARCK, NORTH DAKOTA**

April 18, 2018

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**STATEMENTS OF NET POSITION – MODIFIED CASH BASIS**  
**JUNE 30, 2012 AND 2011**

	2012	2011
<b>ASSETS</b>		
Current assets		
Cash	\$          61	\$      120,870
<b>LIABILITIES</b>		
Current liabilities		
Long-term liabilities due within one year		
Cash overdrafts	156,252	-
Note payable	81,000	78,000
Compensated absences payable	65,121	65,121
Total current liabilities	302,373	143,121
Long-term liabilities		
Long-term liabilities due after one year		
Note payable	84,000	165,000
<b>TOTAL LIABILITIES</b>	386,373	308,121
<b>NET POSITION</b>		
Restricted:		
Capital projects	61	61
Unrestricted	(386,373)	(187,312)
<b>TOTAL NET (DEFICIT) POSITION</b>	\$      (386,312)	\$      (187,251)

See Notes to the Financial Statements

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	
<b>GOVERNMENTAL ACTIVITIES</b>				
Regular instruction	\$ 1,740,392	\$ -	\$ 3,049,771	\$ 1,309,379
Special instruction	389,284	-	-	(389,284)
Administration	399,347	-	-	(399,347)
Operation and maintenance	212,695	-	426	(212,269)
Student activities	81,091	-	-	(81,091)
Student transportation	200,641	-	83,466	(117,175)
Special education	315,581	-	-	(315,581)
Food service	226,467	-	118,151	(108,316)
Interest	9,720	-	-	(9,720)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 3,575,218</b>	<b>\$ -</b>	<b>\$ 3,251,814</b>	<b>(323,404)</b>
<b>GENERAL REVENUES</b>				
Property taxes, levied for general purposes				124,343
Change in net position				(199,061)
Total net (deficit) position, beginning of year				(187,251)
Net (deficit) position - ending				\$ (386,312)

See Notes to the Financial Statements

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	
<b>GOVERNMENTAL ACTIVITIES</b>				
Regular instruction	\$ 1,340,000	\$ -	\$ 3,477,654	\$ 2,137,654
Special instruction	398,000	-	-	(398,000)
Administration	327,000	-	-	(327,000)
Operation and maintenance	509,888	-	20,888	(489,000)
Student activities	105,000	-	-	(105,000)
Student transportation	221,000	-	105,478	(115,522)
Special education	320,000	-	-	(320,000)
Food service	225,000	-	133,306	(91,694)
Interest	20,520	-	-	(20,520)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 3,466,408</b>	<b>\$ -</b>	<b>\$ 3,737,326</b>	<b>270,918</b>
<b>GENERAL REVENUES</b>				
Property taxes, levied for general purposes				124,343
Change in net position				395,261
Total net (deficit) position, beginning of year				(582,512)
Net (deficit) position - ending				<u>\$ (187,251)</u>

See Notes to the Financial Statements



**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**BALANCE SHEET - GOVERNMENTAL FUNDS – MODIFIED CASH BASIS**  
**JUNE 30, 2012**

	General Fund	Building Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash	\$ -	\$ 61	\$ 61
<b>LIABILITIES</b>			
Cash overdraft	\$ 156,252	\$ -	\$ 156,252
<b>FUND BALANCES</b>			
Restricted	-	61	61
Unassigned	(156,252)	-	(156,252)
<b>TOTAL FUND BALANCES</b>	(156,252)	61	(156,191)
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	\$ -	\$ 61	\$ 61

**Reconciliation of the Balance Sheet - Modified Cash Basis to the  
Statement of Net Position - Modified Cash Basis  
June 30, 2012**

Total fund balance	\$ (156,191)
Notes payable	(165,000)
Compensated absences	(65,121)
Net (deficit) position of governmental activities	\$ (386,312)

See Notes to the Financial Statements

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**BALANCE SHEET - GOVERNMENTAL FUNDS – MODIFIED CASH BASIS**  
**JUNE 30, 2011**

	General Fund	Building Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash	\$ 120,809	\$ 61	\$ 120,870
<b>FUND BALANCES</b>			
Restricted	\$ -	\$ 61	\$ 61
Unassigned	120,809	-	120,809
<b>TOTAL FUND BALANCES</b>	\$ 120,809	\$ 61	\$ 120,870

**Reconciliation of the Balance Sheet - Modified Cash Basis to the  
Statement of Net Position - Modified Cash Basis  
June 30, 2011**

Total fund balance	\$ 120,870
Notes payable	(243,000)
Compensated absences	(65,121)
Net (deficit) position of governmental activities	\$ (187,251)

See Notes to the Financial Statements

**SOLENS PUBLIC SCHOOL DISTRICT NO. 3**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –**  
**GOVERNMENTAL FUNDS – MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund	Building Fund	Total Governmental Funds
<b>REVENUES</b>			
Local sources	\$ 1,259,780	\$ -	\$ 1,259,780
State sources	207,809	-	207,809
Federal sources	1,908,142	426	1,908,568
<b>TOTAL REVENUES</b>	<b>3,375,731</b>	<b>426</b>	<b>3,376,157</b>
<b>EXPENDITURES</b>			
Current			
Regular instruction	1,740,392	-	1,740,392
Special instruction	389,284	-	389,284
Administration	399,347	-	399,347
Operations and maintenance	212,269	426	212,695
Student activities	81,091	-	81,091
Student transportation	200,641	-	200,641
Special education	315,581	-	315,581
Food service	226,467	-	226,467
Debt service			
Principal	78,000	-	78,000
Interest	9,720	-	9,720
<b>TOTAL EXPENDITURES</b>	<b>3,652,792</b>	<b>426</b>	<b>3,653,218</b>
Net change in fund balances	(277,061)	-	(277,061)
Fund balances - beginning	120,809	61	120,870
Fund balances - ending	<u>\$ (156,252)</u>	<u>\$ 61</u>	<u>\$ (156,191)</u>

**Reconciliation of Statement of Revenues, Expenditures and  
Changes in Fund Balances - Modified Cash Basis of Governmental  
Funds to the Statement of Activities - Modified Cash Basis  
For the year ended June 30, 2012**

Net change in fund balances	(277,061)
Repayment of debt principal is an expenditure in the governmental fund, but repayment reduces long-term liabilities in the Statement of Net Position.	<u>78,000</u>
Change in net position of governmental activities	<u>\$ (199,061)</u>

See Notes to the Financial Statements

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –**  
**GOVERNMENTAL FUNDS – MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	Building Fund	Total Governmental Funds
<b>REVENUES</b>			
Local sources	\$ 1,181,130	\$ -	\$ 1,181,130
State sources	567,774	-	567,774
Federal sources	2,091,877	20,888	2,112,765
<b>TOTAL REVENUES</b>	<b>3,840,781</b>	<b>20,888</b>	<b>3,861,669</b>
<b>EXPENDITURES</b>			
Current			
Regular instruction	1,340,000	-	1,340,000
Special instruction	398,000	-	398,000
Administration	327,000	-	327,000
Operations and maintenance	489,000	20,888	509,888
Student activities	105,000	-	105,000
Student transportation	221,000	-	221,000
Special education	320,000	-	320,000
Food service	225,000	-	225,000
Debt service			
Principal	147,000	-	147,000
Interest	20,520	-	20,520
<b>TOTAL EXPENDITURES</b>	<b>3,592,520</b>	<b>20,888</b>	<b>3,613,408</b>
Net change in fund balances	248,261	-	248,261
Fund balances - beginning	(127,452)	61	(127,391)
Fund balances - ending	\$ 120,809	\$ 61	\$ 120,870

**Reconciliation of Statement of Revenues, Expenditures and  
Changes in Fund Balances - Modified Cash Basis of Governmental  
Funds to the Statement of Activities - Modified Cash Basis  
For the year ended June 30, 2011**

Net change in fund balances	248,261
Repayment of debt principal is an expenditure in the governmental fund, but repayment reduces long-term liabilities in the Statement of Net Position.	147,000
Change in net position of governmental activities	\$ 395,261

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
STATEMENTS OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUND  
MODIFIED CASH BASIS  
JUNE 30, 2012 AND 2011

**Student Activities**

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	<u>\$ 6,166</u>	<u>\$ 8,522</u>
LIABILITIES		
Due to student activities groups	<u>\$ 6,166</u>	<u>\$ 8,522</u>

See Notes to the Financial Statements

**SOLE PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 1 DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY**

**Principal Activity**

The Solen Public School District No. 3 (District) operates the elementary school in the city of Cannonball, North Dakota and the high school in the city of Solen, North Dakota.

**Reporting Entity**

The accompanying financial statements present the activities of the Solen Public School District No. 3. The District has considered all potential component units for which the District is financially accountable and other organizations for which the nature and significance of their relationships with the District such that exclusion would cause the 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 Solen Public School District No. 3 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 Solen Public School District No. 3.

Based on these criteria, there are no component units to be included within the Solen Public School District No. 3 as a reporting entity.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The District's financial statements have been prepared in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

**Basis of Presentation**

The District's basic financial statements consist of government-wide statements and fund financial statements.

Government-Wide Financial Statements:

The government-wide financial statements consist of the Statements of Net Position – Modified Cash Basis and the Statements of Activities – Modified Cash Basis. These statements report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2012 AND 2011**

The Statements of Activities – Modified Cash Basis demonstrate the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenues which are not classified as program revenues are reported instead as general revenues of the District.

The government-wide financial statements do not include fiduciary funds.

Fund Financial Statements:

In order to aid financial management and to demonstrate legal compliance, the District segregates transactions related to certain functions or activities in separate funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The focus of the governmental fund financial statements is on major funds. Each major fund is presented as a separate column in the fund financial statements. Non-major funds are aggregated and presented in a single column. The fiduciary fund is reported by type.

**Fund accounting** – The District’s funds consist of the following:

Governmental Funds – Governmental funds are utilized to account for most of the District’s governmental functions. The reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which the obligation will be paid. Fund balance represents the difference between the governmental fund assets and liabilities. The District’s major governmental funds are as follows:

General fund – This fund is the general operating fund of the District. It accounts for all financial resources except those required to be accounted for in another fund.

Building fund – This fund accounts for the financial resources related to the capital outlays made by the District.

Fiduciary Funds – The reporting focus of fiduciary funds is on net position and changes in net position. The District’s only fiduciary fund is an agency fund. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The District’s agency fund consists of the following:

Student Activity Fund – The fund accounts for the financial transactions related to the District’s student activity programs.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2012 AND 2011**

**Measurement Focus and Basis of Accounting**

Measurement Focus

Government-wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus, within the limitations of the modified cash basis of accounting.

Fund Financial Statements:

The governmental funds are accounted for using a flow of current financial resources measurement focus, as applied to the modified cash basis of accounting. Under this measurement focus, only current financial assets and liabilities are generally included on the balance sheet. The Statements of Revenues, Expenditures, and Changes in Fund Balance – Modified Cash Basis reports on the sources and uses of current financial resources.

The current financial resources measurement focus differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Due to the difference, the District's financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for government funds. Fiduciary funds also use the economic resources measurement focus as applied to the modified cash basis of accounting.

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Government-wide financial statements are prepared on the modified cash basis of accounting. This basis recognizes assets, net position, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements. Long-term debt is also reported in the government-wide statements.

The District's governmental funds use the modified accrual basis of accounting. Revenues are recognized when they are received in cash and expenditures are recorded at the time of disbursement. The District has elected to report the interfund receivables and payables when incurred and the payroll withholdings as a liability when withheld from the employee's payroll.

If the District utilized the basis of accounting recognized as generally accepted, the government-wide statements would be prepared on the accrual basis of accounting and the governmental fund financial statements would be prepared on the modified accrual basis of accounting.



**SOLE PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2012 AND 2011**

**Revenues-Exchange and Non-Exchange Transactions**

Exchange transactions are transactions in which each party gives and receives essentially equal value. Non-exchange transactions include transactions in which the District receives value without directly providing value in return. Non-exchange transactions include property taxes, grants, entitlements, and donations.

**Cash and Cash Equivalents**

The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**Compensated Absences**

Vested or accumulated sick leave is reported in the government-wide statement of net position. The District pays employees for unused sick leave upon retirement or resignation. The District's personnel policy requires payout of \$70 for each day for certified staff and \$30 for each day for non-certified staff up to a maximum of 60 days for accumulated sick leave.

**Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position – modified cash basis. Bond premiums and discounts are amortized over the life of the bond. Issuance costs are reported as expenditures in the year the bond is issued.

In 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. Insurance costs are reported as debt service expenditures.

**Net Position**

Net position represents the difference between assets and liabilities. Net investment in capital projects consists of the remaining un-depreciated cost of the asset less the outstanding debt and payables related to construction of capital assets associated with the purchase or construction of the related asset. Restricted Net Position consists of restricted assets reduced by liabilities related to those assets. Unrestricted Net Position is the net amount of assets and liabilities that are not included in the determination of net investments in capital projects or the restricted component of net position.

**Net Position Flow Assumption**

Sometimes, the government will fund outlays for particular purposes for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted-net position to have been depleted before unrestricted – net position is applied.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2012 AND 2011**

**Fund Balance Classifications**

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form - inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

*Restricted* – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed* – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the school board-the District's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* – This classification reflects the amounts constrained by the District's "intent" to be used for specific purposes but are neither restricted nor committed. The school board and superintendent have the authority to assign amounts to be used for specific purposes.

Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

*Unassigned* – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, the District's preference is to first use restricted resources, then unrestricted resources - committed, assigned, and unassigned - in order as needed.

**Interfund Transactions**

In the governmental fund statements, transactions that constitute reimbursement 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.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2012 AND 2011**

**Estimates**

The preparation of the financial statements in conformity with the modified cash basis of accounting used by the District requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Revenue Recognition - Property Taxes**

Property taxes attach as an enforceable lien on property January 1. A five percent reduction is allowed if paid by February 15. Penalty and interest are added March 15 if the first half of the taxes has not been paid. Additional penalties are added October 15, if not paid. Taxes are collected by the county and usually remitted monthly to the district.

**NOTE 3 DEPOSITS AND INVESTMENTS**

In accordance with North Dakota Statutes, the 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 institutions 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, 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 another state of the United States or such other securities approved by the banking board.

**Custodial Credit Risk**

The District maintains cash on deposit at a financial institution. The amount on deposit was insured by the FDIC up to \$250,000. At June 30, 2012 and 2011 the District's deposits in excess of FDIC insurance were fully collateralized with securities held by the pledging financial institution's agent in the District's name in accordance with state statutes.

**Credit Risk and Interest Rate Risk**

The school 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.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2012 AND 2011**

- 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.
- e. Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in two hundred seventy days or less.

**NOTE 4 LONG-TERM LIABILITIES**

The following is a summary of changes in long-term liabilities for the years ended June 30, 2012 and 2011.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Certificate of Indebtedness</b>					
FY 2012	\$ 243,000	\$ -	\$ (78,000)	\$ 165,000	\$ 81,000
FY 2011	390,000	-	(147,000)	243,000	78,000
<b>Compensated Absences</b>					
FY 2012	\$ 65,121	\$ -	\$ -	\$ 65,121	\$ -
FY 2011	65,121	-	-	65,121	-

Long-term debt at June 30, 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
\$390,000 certificate of indebtedness dated August 13, 2009, payable in annual principal installments ranging from \$72,000 to \$84,000 and semi-annual interest only payments, maturing June 1, 2014; interest at 4.00%.	<u>\$ 165,000</u>	<u>\$ 243,000</u>

The District was not in compliance with its debt covenants in 2012 or 2011.

The annual requirements to amortize the outstanding debts are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 81,000	\$ 6,600	\$ 87,600
2014	84,000	3,360	87,360
	<u>\$ 165,000</u>	<u>\$ 9,960</u>	<u>\$ 174,960</u>

**SOLE PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2012 AND 2011**

Interest paid on the certificate of indebtedness totaled \$20,520 and \$9,720 for the years ended June 30, 2012 and 2011, all of which was charged to expense.

**NOTE 5 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT**

The Solen Public School District No. 3 contributes to the North Dakota Teachers' Fund for Retirement (TFFR); a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. 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. The report is available on our website, [www.discovernd.com/rio](http://www.discovernd.com/rio), or may be obtained by writing to Teachers' Fund for Retirement, 1930 Burnt Boat Drive, PO Box 7100, Bismarck, ND 58507-7100.

Plan members are required to contribute 7.75% of their annual covered salary and the District is required to contribute 8.25% of the teacher's salary. The contribution requirements of plan members and the District are established and may be amended by the state legislature. The District's contributions to TFFR for the fiscal years ended June 30, 2012, 2011, and 2010 were \$130,132, \$134,866, and \$209,141, respectively, equal to the required contributions for the year.

**NOTE 6 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**

Solen Public School District No. 3 participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the State of North Dakota. The following is a brief description of the plan.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of Solen Public School District #3. The plan provides retirement, disability and death benefits. If an active employee dies with less than five years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary.

If the employee has earned more than five years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the date before death occurred or monthly payments in an amount equal to the employees' accrued 100% joint survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees, who become totally disabled after a minimum of 180 days of service, require monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

**SOLE PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2012 AND 2011**

Employees are entitled to unreduced monthly pension benefits equal to 2.0% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with five or more years of service.

Benefit and contribution provisions are administered in accordance with Chapter 54-53 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement.

Solen Public School District No. 3 was required to contribute 5.26% of each participant's salary as the employer's share until December 31, 2011. As of January 1, 2012, the employer's required contribution share changed to 6.26%. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. Solen Public School District #3's required and actual contributions to NDPERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$13,210, \$9,769, and \$14,757 respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; P.O. Box 1214; Bismarck, ND 58502-1214.

**NOTE 7 RISK MANAGEMENT**

The Solen Public School District No. 3 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 Bismarck Public School District pays an annual premium to NDRIF for its general liability and automobile insurance coverage. The coverage by NDRIF is limited to losses on two million dollars per occurrence for general liability and automobile. The district insures machinery and equipment with the Cincinnati Insurance Company. Coverage is limited to \$55,000,000.

The District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The 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 the District 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 District has workers compensation with the North Dakota Workforce Safety and Insurance.

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

**SOLE PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2012 AND 2011**

**NOTE 8 COMMITMENTS**

The District entered into an agreement in June 2012 for repairs to the roof of the elementary school. This project has an estimated cost of completion of \$43,995. As of June 30, 2012, the District had not yet made any payments towards this project.

**NOTE 9 CONTINGENCIES**

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with items and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. The District's management believes it has complied with all applicable grant provisions. In the opinion of management, any possible disallowed claim would not have a material effect on the overall financial position of the District as of June 30, 2012 and 2011.

**NOTE 10 DEFICIT FUND BALANCE**

The District's general fund had a deficit fund balance of \$156,252 for the year ended June 30, 2012.

**NOTE 11 ISSUED BUT NON-EFFECTIVE PRONOUNCEMENTS**

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* will be effective for financial statement periods beginning after June 15, 2012 with earlier application encouraged. The statement will improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the requirements of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* will be effective for financial statement periods beginning after December 15, 2011 with early application encouraged. The Statement brings the authoritative accounting and financial reporting literature together in one place, with the guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial users. It will eliminate the need to financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, resulting in a more consistent application of applicable guidance in financial statements of state and local governments.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* will be effective for financial statements for periods beginning after December 15, 2011 with early application encouraged. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable

**SOLE PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2012 AND 2011**

to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53* is effective for financial statements for periods beginning after June 15, 2011. Earlier application is encouraged. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012

GASB Statements 67, *Financial Reporting for Pension Plans*. The objective of Statement 67 is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. GASB 67 is effective for periods beginning after June 15, 2013.



**SOLE PUBLIC SCHOOL DISTRICT NO. 3**  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2012 AND 2011

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This statement establishes a definition of a pension plan that Reflects the primary activities associated with the pension arrangement—Determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. GASB 68 is effective for periods beginning after June 15, 2014.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013 and should be applied on a prospective basis. Earlier application is encouraged.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning new pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 which is effective for periods beginning after June 15, 2014.

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The Statement provides guidance for determining fair value measurement for reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statement periods beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

**SOLE PUBLIC SCHOOL DISTRICT NO. 3**  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2012 AND 2011

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 80, *Blending Requirements for Certain Component Units and amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organization Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016 and should be applied retroactively. Earlier application is encouraged.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer

**SOLENS PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2012 AND 2011**

in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. This Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This Statement is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2012 AND 2011**

Management has not yet determined the effect these Statements will have on the District's financial statements.

**NOTE 12 SUBSEQUENT EVENTS**

In November 2012, the District entered into a settlement agreement with a contractor over disputed costs and services performed relating to the high school renovation project which was completed during the year ended June 30, 2011. The agreement called for total payments of \$165,000 to be paid over a period of 6 years with no interest charged. The final settlement payment was made in August 2015.

In January 2016, the District accepted a proposal for the purchase and installation of new playground equipment at the elementary school for \$97,000. The project was completed in May 2016.

During the year ended June 30, 2016, the District entered into multiple contracts for the design and construction of a new bus barn. The estimated cost of the project was approximately \$360,000 and was completed during the year ended June 30, 2017.

In August 2017, the District entered into an agreement for the construction of a new softball field. The cost of the project is estimated to be approximately \$278,000 and is expected to be completed summer 2018.

In March 2018, the District was awarded a federal grant of \$5,300,000 to aid in the construction of a new elementary school. The cost to construct the new school is estimated to be approximately \$7,000,000.

Subsequent events have been evaluated through April 18, 2018, which is the date these financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

**SOLE PUBLIC SCHOOL DISTRICT NO. 3**  
**SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- Through Number	Expenditures	
			2012	2011
U.S. DEPARTMENT OF EDUCATION				
Direct Awards:				
Indian Education Grants to Local Educational Agencies	84.060A		\$ 32,060	\$ 38,172
Impact Aid Cluster:				
Impact Aid	84.041		1,140,152	1,139,644
Impact Aid - School Construction Formula Grant, ARRA	84.404		426	20,888
Subtotal - Impact Aid Cluster			1,140,578	1,160,532
Passed through North Dakota Department of Public Instruction:				
Education Jobs Fund	84.410	PII178	60,868	-
English Language Acquisition Grants	84.365A	PII043	-	306
Title I - Grants to LEAs	84.010	PII019	339,933	456,580
ARRA - Title I - Grants to LEAs	84.389A	PII164	23,374	96,098
Title I, Part A Cluster			363,307	552,678
Safe and Drug-Free Schools and Communities	84.186	PII050	597	3,554
Education Technology State Grants	84.318	PII004	1,747	3,178
Education Technology State Grants, ARRA	84.386A	PII166	118,696	91,418
Education Technology State Grants Cluster			120,443	94,596
ARRA - Improving Teacher Quality State Grants	84.367A	PII046	72,565	129,620
Total U.S. Department of Education			1,790,418	1,979,458
U.S. DEPARTMENT OF AGRICULTURE				
Passed through North Dakota Department of Public Instruction:				
School Breakfast Program	10.553	PII006	36,006	34,467
National School Lunch Program	10.555	PII006	65,965	61,670
Summer Food Service Program for Children	10.559	PII008	10,879	31,478
Child Nutrition Cluster			112,850	127,615
Fresh Fruit and Vegetable Program	10.582	PII009	5,300	5,692
Total U.S. Department of Agriculture			118,150	133,307
Total expenditures of federal awards			\$ 1,908,568	\$ 2,112,765

**NOTE 1 BASIS OF PRESENTATION**

The Schedules of Expenditures of Federal Awards represent amounts expended from federal programs during the year ended June 30, 2012 based on the modified cash basis of accounting. The information in the schedules is presented in accordance with the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENTAL AUDITING STANDARDS**

To the School Board  
Solen Public School District No. 3  
Solen, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying modified cash basis financial statements of the governmental activities, each major fund and the aggregated remaining fund information of Solen Public School District No. 3, as of and for the years ended June 30, 2012 and 2011, and the related notes to the financial statements, which collectively comprise Solen Public School District No. 3's basic financial statements and have issued our report thereon dated April 18, 2018. Our report disclaims an opinion on such financial statements because detailed financial records and supporting data were not available for our audits and we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Solen Public School District No. 3's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Solen Public School District No. 3's internal control. Accordingly, we do not express an opinion on the effectiveness of Solen Public School District No. 3's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2012-001 through 2012-008 to be material weaknesses.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Solen Public School District No. 3'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2012-008 and 2012-009.

### **District's Responses to Findings**

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**BRADY, MARTZ & ASSOCIATES, P.C.  
BISMARCK, NORTH DAKOTA**

April 18, 2018





CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the School Board  
Solen Public School District No. 3  
Solen, North Dakota

**Report on Compliance for Each Major Federal Program**

We have audited Solen Public School District No. 3's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the District's major federal programs for the years ended June 30, 2012 and 2011. Solen Public School District No. 3's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Solen Public School District No. 3's major federal programs based on our audit of the types of compliance requirements referred to above. 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 District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Because of the matter described in the Basis for Disclaimer of Opinion on All Major Federal Programs paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on the District's compliance with material compliance requirements and therefore, express no opinion on the major federal programs.

### ***Basis for Disclaimer of Opinion on All Major Federal Programs***

As described in the accompanying schedule of findings and questioned costs under item 2012-005, Solen Public School District No. 3 was unable to provide the auditor with detail or summary system-generated general ledger information for the years ended June 30, 2012 and 2011, consequently we were unable to test all material compliance requirements regarding the District's major programs as listed in the schedule of findings and questioned costs. Compliance with such requirements is necessary, in our opinion, for Solen Public School District No. 3 to comply with the requirements applicable to that program.

### ***Disclaimer of Opinion on All Major Federal Programs***

Because of the significance of the effects of the noncompliance described in the Basis for Disclaimer of Opinion on All Major Federal Programs paragraph, we were unable to obtain sufficient appropriate audit evidence to provide an audit opinion on the District's compliance with material compliance requirements. Accordingly, we do not express an opinion on the District's compliance with material compliance requirements.

### ***Other Matters***

The results of our auditing procedures disclosed another instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2012-009. Our opinion on each major federal program is not modified with respect to this matter.

The District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Management of Solen Public School District No. 3 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Solen Public School District No. 3's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-005 and 2012-009 to be material weaknesses.

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

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Solen Public School District No. 3's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



**BRADY, MARTZ & ASSOCIATES, P.C.  
BISMARCK, NORTH DAKOTA**

April 18, 2018

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**Section I – Summary of Auditor’s Results**

Financial Statements

Type of auditor’s report issued:	<u>Disclaimer</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	<u>  x  </u> yes	<u>      </u> no
Significant deficiency(ies) identified?	<u>      </u> yes	<u>  x  </u> none reported
Noncompliance material to financial statements noted?	<u>  x  </u> yes	<u>      </u> no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	<u>  x  </u> yes	<u>      </u> no
Significant deficiency(ies) identified?	<u>      </u> yes	<u>  x  </u> none reported

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

Disclaimer

Any audit findings disclosed that are Required to be reported in accordance with Section 510(a) of OMB Circular A-133?

  x   yes             no

CFDA Number(s)

Name of Federal Program or Cluster

84.010 & 84.389A  
84.041 & 84.404

Title I, Part A Cluster  
Impact Aid Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

  \$300,000  

Auditee qualified as a low-risk auditee?

       yes        X   no

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**Section II – Financial Statement Findings**

**Note: All findings are applicable to both fiscal years ended June 30, 2012 and 2011.**

**2012-001: Financial Statements Prepared by Auditor – Material Weakness**

**Criteria**

A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements, including recording government wide journal entries in order to reconcile from the fund financials to the government wide financials and ensuring all general ledger accounts are properly reflected on the modified cash basis of accounting.

**Condition**

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited.

**Cause**

This control deficiency could result in a misstatement to the presentation of the footnotes in the audit ready financial statements.

**Effect**

Inadequate controls over financial reporting of the District results in more than a remote likelihood that the District would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

**Recommendation**

The circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

**Views of Responsible Officials and Planned Corrective Actions**

The Solen School Board has decided to accept the degree of risk associated with the District not preparing its own financial statements due to the time and expense necessary to have staff prepare the statements prior to the annual audit.

**Indication of Repeat Finding**

This is a repeat finding of finding 2010-001 from the prior audit.

**2012-002: Segregation of Duties – Material Weakness**

**Criteria**

To ensure adequate internal control over financial reporting and prevent material misstatements due to errors or fraud, there should be a segregation of the functions of approval, custody of assets, posting, and reconciliation.

**Condition**

We believe the limited number of personnel prevents a proper segregation of duties to ensure adequate internal control.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**Cause**

Due to the size of the District, it is not practical to have sufficient staff to ensure adequate segregation of approval, custody of assets, posting, and reconciliation.

**Effect**

The financial statements are susceptible to misstatements due to errors or fraud. There is a risk that improper or unauthorized payments could be made to employees. The risk is especially high for the business manager, as the business manager's duties include printing payroll and non-payroll checks, general ledger functions, and reconciliation functions.

**Recommendation**

We recommend that management be aware of the lack of segregation of duties and implement controls wherever possible to mitigate this risk. We recommend that the District implement and/or continue the following:

- A listing of all bills paid should be reviewed and approved by the School Board. If a board member has questions on a specific bill, the supporting invoice should be provided to the board member.
- All checks require signature by two persons. One of the persons signing the checks should be a School Board member.
- The individual responsible for printing and mailing checks should be separate from the individual responsible for authorizing payments and signing checks.
- Monthly income statements and balance sheets should be reviewed and approved by a responsible official and the School Board.
- Bank reconciliations should be reviewed and approved by someone separate from bank reconciliation responsibilities.
- The business manager should not sign checks made out to the business manager.
- Two people should be responsible for counting cash, and both individuals should sign off on all daily cash receipts.

We recommend payroll disbursements for hourly employees should be supported by time cards or other documentation showing hours worked, and the time cards should be reviewed and approved by an appropriate supervisor. Supporting documentation should be obtained for all requests for reimbursement and be reviewed and approved by a responsible official. In addition, we recommend that the two authorized signers other than the business manager sign any checks to the business manager.

**Views of Responsible Officials and Planned Corrective Actions**

Both the school board and management agree that limited personnel prevents proper segregation of duties to ensure adequate internal controls. The Solen Board of Education will review and approve all invoices at regularly scheduled board meetings. All checks are signed by either the board president or vice president. The superintendent is responsible for authorizing payments; the business manager prints and mails checks after either the board president or vice president signs these checks. A district wide monthly budget balance sheet is presented and approved by the board of education after being reviewed by the school superintendent. Bank reconciliations will be reviewed and approved at monthly board meetings. The district currently has a process in place to have two people count cash and sign off on all daily cash receipts.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

The District agrees that time sheets should be present in order to make payments to employees and that these time sheets should be signed by a supervisor. The District will have all hourly employees turn in time cards for payment. These time cards will need a supervisor signature before payments will be made.

**Indication of Repeat Finding**

This is a repeat finding of findings 2010-002 and 2010-007 from the prior audit.

**2012-003: Capital Assets – Material Weakness**

**Criteria**

Accounting principles generally accepted in the United States of America, as applied under the modified cash basis of accounting, require the financial statements include the capital assets, net of accumulated depreciation. GASB 34 requires that capital asset records include infrastructure constructed after January 1, 2004.

**Condition**

The District does not maintain capital asset records sufficient for financial reporting purposes under GASB 34. Furthermore, the District does not have a capital asset policy which includes a capitalization threshold, useful lives, and depreciation methods.

**Cause**

The District has not deemed it a priority to establish a capital asset policy for financial reporting purposes, as that is not required by users of its financial statements.

**Effect**

The omission of capital assets from the financial statements results in an incomplete presentation of the District's financial statements and will preclude an unmodified opinion on the government-wide financial statements.

**Recommendation**

We recommend that the School Board determine whether it is appropriate to adopt a capital asset policy, which serves as a guideline for financial reporting of capital assets. If such a policy is deemed necessary and adopted by the School Board, we further recommend that the District prepare a schedule of capital assets, complete with accumulated depreciation, in accordance with the District's policies.

**Views of Responsible Officials and Planned Corrective Actions**

The District will begin the process to determine whether it is appropriate and beneficial to adopt a capital asset policy. If a policy is adopted the District will prepare a schedule of capital assets that includes depreciation. This policy will be in accordance with the District's policies.

**Indication of Repeat Finding**

This is a repeat finding of finding 2010-003 from the prior audit.

**2012-004: Account Reconciliations – Material Weakness**

**Criteria**

As a matter of internal control, bank statements should be reconciled timely to identify potential errors or indications of fraud.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

**Condition**

The District's bank statements are not being timely reconciled to the District's general ledger balances.

**Cause**

The District does not have adequate policies or procedures in place to reconcile bank accounts on a monthly basis.

**Effect**

There could be material misstatements in cash balances, whether due to error or fraud, which could go undetected for an extended period of time.

**Recommendation**

We recommend that all bank accounts be reconciled each month prior to preparation of the monthly financial statements.

**Views of Responsible Officials and Planned Corrective Actions**

The District will implement procedures to ensure that bank reconciliations take place on a monthly basis.

**Indication of Repeat Finding**

The auditor was unable to confirm whether this finding was corrected due to the lack of documentation available. This is a repeat finding of finding 2010-004 from the prior audit.

**2012-005: Accounting Records – Material Weakness**

**Criteria**

All financial records should be maintained long enough either as required under federal guidelines or until the audit is completed, whichever is later.

**Condition**

In the course of the audit, the auditor was unable to obtain adequate financial records or supporting documentation sufficient to support an opinion on the financial statements or on compliance with the District's major federal programs.

**Cause**

The District had experienced significant turnover in various administrative and support roles critical to its financial reporting and compliance with major federal programs and the controls that may have been in place were not communicated to or implemented by the various successors. In addition, the District was unable to generate information out of their accounting software to reproduce financial records.

**Effect**

There is a high risk that material misstatements could occur in the financial statements, whether due to errors or fraud, and the lack of sufficient accounting records will result in disclaimers of opinion on the financial statements and the District's compliance with major federal programs.



**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

**Recommendation**

We recommend the District implement the following:

- Provide training and oversight to staff on retention of accounting records, including those requirements applicable to the A-133 / Uniform Guidance going forward.
- Adopt a formal document retention policy which will result in the generation and retention of appropriate financial reports and related supporting schedules.
- Adopt formalized accounting policies and procedures which provide for appropriate reconciliation, oversight, and retention of accounting records.
- Adopt formalized lines of responsibility and authority for compliance with federal grant requirements which should include, but not be limited to, responsibility for preparing, reviewing, reconciling and retaining documentation supporting the District's compliance with applicable federal programs.

**Views of Responsible Officials and Planned Corrective Actions**

The District understands and accepts the fact that the auditor was unable to obtain adequate financial records to make an opinion. The District plans to adopt a formal document retention policy and formalized accounting policies and procedures. The District will also adopt formalized lines of authority for compliance with federal grant requirements.

**Indication of Repeat Finding**

This is a repeat finding of finding 2010-005 from the prior audit.

**2012-006: Construction Account Omitted from General Ledger – Material Weakness**

**Criteria**

To prepare financial statements in conformity with generally accepted accounting principles, or as applicable, an other comprehensive basis of accounting, the financial statements must include all revenues and expenditures made by the District. Additionally, a complete general ledger will enable management and the Board to have a clear financial picture of the District and facilitate monitoring the District's financial transactions and balances.

**Condition**

The District made material disbursements toward construction of a school building, which was completed in 2011. The majority of these disbursements were made from a separate construction bank account; the construction bank account was not included in the District's general ledger.

**Cause**

The District maintains a separate checkbook for the construction funds which were not included in the District's accounting system.

**Effect**

The construction fund revenues and expenses were materially understated. Audit adjustments have been proposed to add the construction fund activity to the District's financial statements.

**Recommendation**

We recommend going forward the District include all bank accounts and all financial transactions in the District's general ledger.

**SOLENS PUBLIC SCHOOL DISTRICT NO. 3**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**Views of Responsible Officials and Planned Corrective Actions**

The district understands and accepts the finding that material disbursements were made from a separate construction bank account and this bank account was not included in the District's general ledger. Going forward, the District will include all bank accounts and all financial transactions in the District's general ledger.

**Indication of Repeat Finding**

This is a repeat finding of finding 2010-006 from the prior audit.

**2012-007: Timely Recognition of Transactions – Material Weakness**

**Criteria**

To prepare financial statements in conformity with generally accepted accounting principles, or as applicable, an other comprehensive basis of accounting, the financial statements must include all revenues and expenditures made by the District. Additionally, a general ledger completed on a timely basis will enable management and the Board to have a clear financial picture of the District and facilitate monitoring the District's financial transactions and balances.

**Condition**

In fiscal years 2012 and 2011, it was noted that not all of the District's receipt and disbursement activity was not recorded in the District's accounting software. Furthermore, the District was unable to run reports or obtain information from the accounting software.

**Cause**

Deposits and disbursements were not recorded in the software in a timely manner, or not at all in some instances.

**Effect**

The internal financial statements did not include an accurate description of the financial activity for the district.

**Recommendation**

We recommend that going forward the District record all deposits and disbursements into its accounting software as the transactions take place. Additionally, on a monthly basis, cash accounts should be reconciled to the general ledger. All reconciliations should be reviewed by and approved by someone besides the business manager.

**Views of Responsible Officials and Planned Corrective Actions**

The District will implement procedures that will ensure that all deposits and disbursements are recorded in the software system.

**Indication of Repeat Finding**

This is a repeat finding of finding 2010-008 from the prior audit.

**2012-008: Payroll Taxes – Material Weakness**

**Criteria**

An employer is required to withhold federal income and payroll taxes from its employee's wages and pay them to the Internal Revenue Service (IRS). Employers are required to make federal

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

payroll tax payments to the government as well as filing the proper reporting and informational returns.

**Condition**

The District withheld payroll taxes from its employees during fiscal year 2011 however it did not make timely remittances of those taxes to the government. Furthermore, the District did not file the required reporting related to payroll taxes.

**Cause**

The District has not implemented formal policies and procedures to ensure IRS reporting and remittance requirements are followed.

**Effect**

The District is not in compliance with the requirements set forth by the IRS.

**Recommendation**

We recommend the District adopt formal policies and procedures regarding payroll taxes and provide additional training to accounting staff as necessary.

**Views of Responsible Officials and Planned Corrective Actions**

The District has remitted all taxes owed and is current on payroll taxes.

**Indication of Repeat Finding**

This is a new finding.

**Section III – Federal Award Findings and Questioned Costs**

See finding 2012-005 reported in Section II.

**2012-009: Untimely Filing of Data Collection Form – Material Weakness**

**All Federal Awards**

**Criteria**

The District needs to ensure timely filing of the annual data collection form.

**Condition**

The District is required to submit the data collection form electronically to the Federal Audit Clearinghouse. This is to be completed within 30 days of report issuance or nine months after year end (March 31), whichever is earlier. The data collection form for the years ending June 30, 2010 and 2009 was not timely filed.

**Cause**

The District had not completed its audit as of the due date, therefore the data collection forms were not filed timely.

**Effect**

The District was not in compliance with the requirements for filing of the data collection form.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**Recommendation**

We recommend that the District ensure that the audit is completed in a timely manner and the data collection form is filed within the required timeline.

**Views of Responsible Officials and Planned Corrective Actions**

The District is in the process of getting caught up on their audits. The District hired a new accounting firm to conduct the audits and is anticipating being caught up on audits by December 31, 2018.

**Indication of Repeat Finding**

This is a new finding.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**SCHEDULE OF PRIOR YEAR FINDINGS**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**2010-001: Preparation of Financial Statements**

**Criteria**

As a matter of internal control, management should be responsible and capable of preparing financial statements in conformity with generally accepted accounting principles, or as applicable, an other comprehensive basis of accounting.

**Condition**

The auditor assists management in preparing financial statements that are presented, including note disclosures, in conformity with the modified cash basis of accounting.

**Status of Finding**

This finding is repeated in the current year. See 2012-001.

**2010-002: Limited Staff Size**

**Criteria**

To ensure adequate internal control over financial reporting and prevent material misstatements due to errors or fraud, there should be a segregation of the functions of approval, custody of assets, posting, and reconciliation.

**Condition**

We believe the limited number of personnel prevents a proper segregation of duties to ensure adequate internal control.

**Status of Finding**

This finding is repeated in the current year. See 2012-002.

**2010-003: Capital Asset Records**

**Criteria**

Accounting principles generally accepted in the United States of America require the financial statements include the capital assets, net of accumulated depreciation. GASB 34 requires that capital asset records include infrastructure constructed after January 1, 2004.

**Condition**

The District does not maintain capital asset records sufficient for financial reporting purposes under GASB 34. Furthermore, the District does not have a capital asset policy which includes a capitalization threshold, useful lives, and depreciation methods.

**Status of Finding**

This finding is repeated in the current year. See 2012-003.

**2010-004: Timely Bank Reconciliations**

**Criteria**

As a matter of internal control, bank statements should be reconciled timely to identify potential errors or indications of fraud.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**SCHEDULE OF PRIOR YEAR FINDINGS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**Condition**

The District's bank statements are not being timely reconciled to the District's general ledger balances. Additionally, the entries proposed by an independent consultant have not been made to the general ledger.

**Status of Finding**

This finding is repeated in the current year. See 2012-004.

**2010-005: Lack of Accounting Records**

**Condition**

In the course of the audit, the auditor was unable to obtain adequate financial records or supporting documentation sufficient to support an opinion on the financial statements or on compliance with the District's major federal programs.

**Status of Finding**

This finding is repeated in the current year. See 2012-005.

**2010-006: Construction Account Omitted From General Ledger**

**Criteria**

To prepare financial statements in conformity with generally accepted accounting principles, or as applicable, an other comprehensive basis of accounting, the financial statements must include all revenues and expenditures made by the District. Additionally, a complete general ledger will enable management and the Board to have a clear financial picture of the District and facilitate monitoring the District's financial transactions and balances.

**Condition**

The District made material disbursements toward construction of a school building during 2010 and 2009. The majority of these disbursements were made from a separate construction bank account; the construction bank account was not included in the District's general ledger.

**Status of Finding**

This finding is repeated in the current year. See 2012-006.

**2010-007: Lack of Documentation of Payments to Business Manager**

**Criteria**

As a matter of internal control, payroll disbursements for hourly employees should be supported by time cards or other documentation showing hours worked, and the time cards should be reviewed and approved by an appropriate supervisor. Non-payroll disbursements such as reimbursements for travel or other expenses should be supported by a formal request for reimbursement which should be reviewed and approved by an appropriate supervisor.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**SCHEDULE OF PRIOR YEAR FINDINGS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**Condition**

During our review of 170 of the non-payroll payments to the business manager in fiscal years 2010 and 2009, there was no supporting documentation for 69 of the payments made. For the 101 supported payments, none of the reimbursement requests were signed by a supervisor.

**Status of Finding**

This finding is repeated in the current year. See 2012-002.

**2010-008: Timely Recognition of Transactions**

**Criteria**

To prepare financial statements in conformity with generally accepted accounting principles, or as applicable, an other comprehensive basis of accounting, the financial statements must include all revenues and expenditures made by the District. Additionally, a general ledger completed on a timely basis will enable management and the Board to have a clear financial picture of the District and facilitate monitoring the District's financial transactions and balances.

**Condition**

In fiscal year 2009, it was noted that the District's receipt activity for the year was not recorded in the District's accounting software until May, 2009. Additionally, \$1,147,412 in bank deposits were not recorded in the accounting system.

**Status of Finding**

This finding is repeated in the current year. See 2012-007.

**2010-009: Board Approval of Expenditures**

**Criteria**

North Dakota Century Code ('NDCC') 40-01-12 requires all expenditures to be approved by the governing board before payments shall be made. Additionally, every payment which is approved by the governing board shall be shown in the minutes.

**Condition**

In 2009 and 2010, a motion was not made during the District board meeting to approve expenditures made for the District. Additionally, we noted several instances in which a listing of bills was not attached to the minutes.

**Status of Finding**

Although a recommended procedure to strengthen internal controls over expenditures, the aforementioned NDCC 40-12-12 applies to municipal governments and is not applicable to the District. This finding was not repeated for the years 2011 and 2012.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**CORRECTIVE ACTION PLAN**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**2012-001: Financial Statements Prepared by Auditor**

Corrective Action Plan

The management and School Board of Solen Public School District No. 3 do not feel it is cost beneficial to obtain and maintain this type of knowledge and expertise.

Completion Date

Solen Public School District No. 3 will implement when it becomes cost effective.

**2012-002: Segregation of Duties**

Corrective Action Plan

The management and School Board of Solen Public School District No. 3 will review and implement the auditor recommendations in order to strengthen internal control.

Completion Date

Solen Public School District No. 3 will implement when it becomes cost effective.

**2012-003: Capital Assets**

Corrective Action Plan

The management and School Board of Solen Public School District No. 3 will begin the process to determine whether it is appropriate and beneficial to adopt a capital asset policy. If a policy is adopted the District will prepare a schedule of capital assets that includes depreciation. This policy will be in accordance with the District's policies.

Completion Date

Fiscal year ended June 30, 2013.

**2012-004: Account Reconciliations**

Corrective Action Plan

The management and School Board of Solen Public School District No. 3 plan to implement procedures to ensure that bank reconciliations take place on a monthly basis.

Completion Date

Fiscal year ended June 30, 2013.

**2012-005: Accounting Records**

Corrective Action Plan

The management and School Board of Solen Public School District No. 3 plan to adopt a formal document retention policy and formalized accounting policies and procedures. The District will also adopt formalized lines of authority for compliance with federal grant requirements.

Completion Date

Fiscal year ended June 30, 2013.



**SOLENS PUBLIC SCHOOL DISTRICT NO. 3**  
**CORRECTIVE ACTION PLAN - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**2012-006: Construction Account Omitted from General Ledger**

Corrective Action Plan

The management and School Board of Solen Public School District No. 3 will ensure all bank accounts and all financial transactions are included in the District's general ledger.

Completion Date

Fiscal year ended June 30, 2013.

**2012-007: Timely Recognition of Transactions**

Corrective Action Plan

The management and School Board of Solen Public School District No. 3 plan to implement procedures to ensure that all deposits and disbursements are recorded in the software system in a timely manner.

Completion Date

Fiscal year ended June 30, 2013.

**2012-008: Payroll Taxes**

Corrective Action Plan

The management and School Board of Solen Public School District No. 3 have implemented procedures to ensure that all payroll taxes are properly reported and remitted. Currently, the District is current on all remittances of payroll taxes.

Completion Date

Fiscal year ended June 30, 2013.

**2012-009: Data Collection Forms**

Corrective Action Plan

The District is in the process of getting caught up on their audits. The District hired a new accounting firm to conduct the audits and is anticipating being caught up on audits by December 31, 2018.

Completion Date

Fiscal year ended June 30, 2013.

Contact Person Regarding all Findings

Justin Fryer, Superintendent