

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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SOLE PUBLIC SCHOOL DISTRICT NO. 3  
ROSTERS OF SCHOOL OFFICIALS  
JUNE 30, 2016

Current

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

June 30, 2016

Louis DeCouteau, Sr.	President
Sue Isbell	Vice President
Steven Bryan Silk	Board Member
Lois Two Bears	Board Member
Stephanie Tikanye	Board Member
Pete Red Tomahawk	Board Member
Shannon Thunderhawk	Board Member
Justin Fryer	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 remaining fund information of Solen Public School District No. 3, as of and for the year ended June 30, 2016, 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 conducting the 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. Because of the matter described in the Basis for Disclaimer of Opinions 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 audit of the year ended June 30, 2016. 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 Opinions paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for 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 on Supplementary Information*

Our audit was 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 schedule of expenditures of federal awards and notes to the schedule of expenditures of federal awards are presented for purposes of additional analysis, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and notes to the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Because of the significance of the matter described above in the Disclaimer of Opinions paragraph, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

### *Other Information*

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

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

In accordance with Government Auditing Standards, we have also issued our report dated August 10, 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 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**

August 10, 2018

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**STATEMENT OF NET POSITION – MODIFIED CASH BASIS**  
**JUNE 30, 2016**

<b>ASSETS</b>	
Current assets	
Cash	\$ 1,561,338
<b>LIABILITIES</b>	
Current liabilities	
Long-term liabilities due within one year	
Compensated absences payable	65,121
<b>NET POSITION</b>	
Restricted:	
Capital projects	61
Unrestricted	1,496,156
<b>TOTAL NET POSITION</b>	<b>\$ 1,496,217</b>

See Notes to the Financial Statements

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>GOVERNMENTAL ACTIVITIES</b>				
Regular instruction	\$ 2,129,151	\$ -	\$ 4,212,919	\$ 2,083,768
Special instruction	449,706	-	137,112	(312,594)
Administration	408,802	-	-	(408,802)
Operation and maintenance	488,625	-	-	(488,625)
Student activities	84,964	-	-	(84,964)
Student transportation	360,495	-	86,201	(274,294)
Food service	249,508	-	131,319	(118,189)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 4,171,251</b>	<b>\$ -</b>	<b>\$ 4,567,551</b>	<b>396,300</b>
<b>GENERAL REVENUES</b>				
Property taxes, levied for general purposes				123,952
Miscellaneous revenue				63
<b>TOTAL GENERAL REVENUES</b>				<b>124,015</b>
Change in net position				520,315
Net position, beginning of year				975,902
Net position - ending				<b>\$ 1,496,217</b>

See Notes to the Financial Statements

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**BALANCE SHEET - GOVERNMENTAL FUNDS – MODIFIED CASH BASIS**  
**JUNE 30, 2016**

	General Fund	Building Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash	\$ 1,561,277	\$ 61	\$ 1,561,338
<b>FUND BALANCES</b>			
Restricted	\$ -	\$ 61	\$ 61
Unassigned	1,561,277	-	1,561,277
<b>TOTAL FUND BALANCES</b>	\$ 1,561,277	\$ 61	\$ 1,561,338

**Reconciliation of the Balance Sheet - Modified Cash Basis to the  
Statement of Net Position - Modified Cash Basis  
June 30, 2016**

Total fund balance	\$ 1,561,338
Compensated absences	(65,121)
Net position of governmental activities	\$ 1,496,217

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, 2016**

	General Fund	Building Fund	Total Governmental Funds
<b>REVENUES</b>			
Local sources	\$ 217,353	\$ -	\$ 217,353
State sources	2,348,737	-	2,348,737
Federal sources	2,125,413	-	2,125,413
Miscellaneous	63	-	63
<b>TOTAL REVENUES</b>	<b>4,691,566</b>	<b>-</b>	<b>4,691,566</b>
<b>EXPENDITURES</b>			
Current			
Regular instruction	2,129,151	-	2,129,151
Special instruction	449,706	-	449,706
Administration	408,802	-	408,802
Operations and maintenance	488,625	-	488,625
Student activities	84,964	-	84,964
Student transportation	360,495	-	360,495
Food service	249,508	-	249,508
<b>TOTAL EXPENDITURES</b>	<b>4,171,251</b>	<b>-</b>	<b>4,171,251</b>
Net change in fund balances	520,315	-	520,315
Fund balances - beginning	1,040,962	61	1,041,023
Fund balances - ending	<b>\$ 1,561,277</b>	<b>\$ 61</b>	<b>\$ 1,561,338</b>

See Notes to the Financial Statements

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUND**  
**MODIFIED CASH BASIS**  
**JUNE 30, 2016**

**Student Activities**

ASSETS	
Cash and cash equivalents	<u>\$        968</u>
LIABILITIES	
Due to student activities groups	<u>\$        968</u>

**SOLE PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**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 District. 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. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District 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 the District.

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 Statement of Net Position – Modified Cash Basis and the Statement 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, 2016**

The Statement of Activities – Modified Cash Basis demonstrates 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.

**SOLE PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

**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 Statement 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 and compensated absences are 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.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

**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.

**Net Position**

Net position represents the difference between assets and liabilities. Net investment in capital assets 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.

**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.

**SOLENS PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

*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.

### **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.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

**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, 2016, 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.
- 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.



**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

**NOTE 4 LONG-TERM LIABILITIES**

The following is a summary of changes in long-term liabilities for the year ended June 30, 2016.

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated Absences	\$ 65,121	\$ -	\$ -	\$ 65,121	\$ 65,121

**NOTE 5 OPERATING LEASES**

The District has entered into operating leases for office equipment, with monthly payments totaling \$1,363 per month through April 2020. During the year, the District paid \$16,356 on these leases. The required future annual lease payments are as follows:

2017	\$ 16,356
2018	16,356
2019	16,356
2020	13,630

**NOTE 6 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT**

The following brief description of TFFR is provided for general information purposes only. Participants should refer to NDCC Chapter 15-39.1 for more complete information.

TFFR is a cost-sharing multiple-employer defined benefit pension plan covering all North Dakota public teachers and certain other teachers who meet various membership requirements. TFFR provides for pension, death and disability benefits. The cost to administer the TFFR plan is financed by investment income and contributions.

Responsibility for administration of the TFFR benefits program is assigned to a seven-member Board of Trustees (Board). The Board consists of the State Treasurer, the Superintendent of Public Instruction, and five members appointed by the Governor. The appointed members serve five-year terms which end on June 30 of alternate years. The appointed Board members must include two active teachers, one active school administrator, and two retired members. The TFFR Board submits any necessary or desirable changes in statutes relating to the administration of the fund, including benefit terms, to the Legislative Assembly for consideration. The Legislative Assembly has final authority for changes to benefit terms and contribution rates.

***Pension Benefits***

For purposes of determining pension benefits, members are classified within one of three categories. Tier 1 grandfathered and Tier 1 non-grandfathered members are those with service credit on file as of July 1, 2008. Tier 2 members are those newly employed and returning refunded members on or after July 1, 2008.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

*Tier 1 Grandfathered*

A Tier 1 grandfathered member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 85. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 85. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

*Tier 1 Non-grandfathered*

A Tier 1 non-grandfathered member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

*Tier 2*

A Tier 2 member is entitled to receive unreduced benefits when five or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the five highest annual salaries earned divided by 60 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

***Death and Disability Benefits***

Death benefits may be paid to a member's designated beneficiary. If a member's death occurs before retirement, the benefit options available are determined by the member's vesting status prior to death. If a member's death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement.

An active member is eligible to receive disability benefits when: (a) a total disability lasting 12 months or more does not allow the continuation of teaching, (b) the member has accumulated five years of credited service in North Dakota, and (c) the Board of Trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and uses the member's actual years of credited service. There is no actuarial reduction for reason of disability retirement.

***Member and Employer Contributions***

Member and employer contributions paid to TFFR are set by NDCC Section 15-39.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 11.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 12.75% of the teacher's salary. Member and employer contributions will be reduced to 7.75% each when the fund reaches 100% funded ratio on an actuarial basis.

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70½. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2016, if Solen Public School District No. 3 were to report on the full accrual basis, a liability of \$3,150,859 for its proportionate share of the net pension liability would have been reported. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At June 30, 2015, the Employer's proportion was 0.240918 percent, which was a decrease of 0.042393 percent from its proportion measured as of June 30, 2014.

**SOLENS PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

***Actuarial Assumptions***

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	4.25% to 14.50%, varying by service, including inflation and productivity
Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

For active and inactive members, mortality rates are based on the RP-2014 Employee Mortality Table, projected generationally using Scale MP-2014. For healthy retirees, mortality rates were based on the RP-2014 Healthy Annuity Mortality Table set back one year, multiplied by 50% for ages under 75 and grading up to 100% by age 80, projected generationally using Scale MP-2014. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table set forward four years.

The actuarial assumptions used were based on the results of an actuarial experience study dated April 30, 2015. They are the same as the assumptions used in the July 1, 2015, funding actuarial valuation for TFFR.

As a result of the April 30, 2015 actuarial experience study, the TFFR Board adopted several assumption changes, including the following:

- Investment return assumption lowered from 8% to 7.75%.
- Inflation assumption lowered from 3% to 2.75%.
- Total salary scale rates lowered by 0.25% due to lower inflation.
- Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- Rates of turnover and retirement were changed to better reflect anticipated future experience.
- Updated mortality assumption to the RP-2014 mortality tables with generational improvement.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	57%	7.50%
Global Fixed Income	22%	1.30%
Global Real Assets	20%	5.40%
Cash Equivalents	1%	0.00%

***Discount Rate***

**SOLE PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2015, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015. The discount rate used to measure the total pension liability changed from 8% to 7.75% based on the investment return assumption change as a result of the April 30, 2015 actuarial experience study.

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued TFFR report. Requests to obtain or review this report should be addressed to the North Dakota Retirement and Investment Office, 1930 Burnt Boat Dr. Bismarck, ND 58503.

**NOTE 7 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

***Pension Benefits***

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

***Death and Disability Benefits***

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the NDPERS in the North Dakota Administrative Code.

***Refunds of Member Account Balance***

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

***Member and Employer Contributions***

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 24 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2016, if Solen Public School District No. 3 were to report on the full accrual basis, a liability of \$102,684 for its proportionate share of the net pension liability would have been reported. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2015, the Employer's proportion was 0.015101 percent, which was a decrease of 0.00547 percent from its proportion measured as of June 30, 2014.

***Actuarial Assumptions***

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2015, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31%	6.90%
International Equity	21%	7.55%

**SOLE PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Fixed Income	5%	0.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

***Discount Rate***

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2015, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; P.O. Box 1214; Bismarck, ND 58502-1214.

**NOTE 8 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 (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The District pays an annual premium to NDIRF for its general liability and automobile insurance coverage. The coverage by NDIRF is limited to losses on two million dollars per occurrence.

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.



**SOLE PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

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

**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, 2016.

**NOTE 10 COMMITMENTS**

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.

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

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

**SOLE PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

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 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.

**SOLENS PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

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.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

**NOTE 12 SUBSEQUENT EVENTS**

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 total cost to construct the new school is estimated to be approximately \$7,000,000. In May 2018, the District entered into contracts for the management and architectural services related to this project for \$1,278,000 which are included in the estimated total cost above.

Subsequent events have been evaluated through August 10, 2018, which is the date these financial statements were available to be issued.

## SUPPLEMENTARY INFORMATION

**SOLENS PUBLIC SCHOOL DISTRICT NO. 3**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF EDUCATION			
Direct Awards:			
Indian Education Grants to Local Educational Agencies	84.060A		\$ 36,301
Impact Aid	84.041		1,020,664
Passed through North Dakota Department of Public Instruction:			
Title I - Grants to LEAs	84.010	PII019	383,488
Improving Teacher Quality State Grants	84.367	PII046	78,774
School Improvements Grants Cluster: School Improvement Grants	84.377	PII019	<u>474,867</u>
Total U.S. Department of Education			<u>1,994,094</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through North Dakota Department of Public Instruction:			
School Breakfast Program	10.553	PII006	41,656
National School Lunch Program	10.555	PII006	79,230
Summer Food Service Program for Children Child Nutrition Cluster	10.559	PII008	<u>5,763</u> 126,649
Fresh Fruit and Vegetable Program	10.582	PII009	<u>4,670</u>
Total U.S. Department of Agriculture			<u>131,319</u>
Total expenditures of federal awards			<u>\$ 2,125,413</u>

See Notes to the Schedule of Expenditures of Federal Awards

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016

**NOTE 1 BASIS OF PRESENTATION**

The Schedule of Expenditures of Federal Awards represent amounts expended from federal programs during the year ended June 30, 2016 based on the modified cash basis of accounting. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the applicable cost principles contained in Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or limited as to reimbursement. The District has not elected to use the 10-percent de minimis cost rate as allowed under the Uniform Guidance.



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 were engaged to audit, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying modified cash basis financial statements of the governmental activities, each major fund and the remaining fund information of Solen Public School District No. 3, as of and for the year ended June 30, 2016, 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 August 10, 2018. Our report disclaims an opinion on such financial statements because detailed financial records were not available for our audit 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 connection with our engagement to audit the financial statements of Solen Public School District No. 3's, 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 opinions 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.

*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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2016-001 through 2016-007 that we consider to be material weaknesses.



## **Compliance and Other Matters**

In connection with our engagement to audit the financial statements of Solen Public School District No. 3, 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 engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as items 2016-008. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

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

The District's responses to the findings identified in our engagement are described in the accompanying schedule of findings and questioned costs and corrective action plan. The District's responses were not subjected to the auditing procedures applied in the engagement to audit 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**

August 10, 2018



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

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

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

We were engaged to audit Solen Public School District No. 3's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 2016-005, Solen Public School District No. 3 was unable to provide the auditor with detail or summary system-generated general ledger information for the year ended June 30, 2016, 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 the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2016-008. 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 and corrective action plan. 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 the Uniform Guidance, 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.

*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. *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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-005 and 2016-008 that we consider to be material weaknesses.

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 and corrective action plan. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



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

August 10, 2018

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**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:	<u>Disclaimer</u>	
Any audit findings disclosed that are Required to be reported in accordance with 2 CFR 200.516(a)?	<u>  x  </u> yes	<u>      </u> no

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.041	Impact Aid

Dollar threshold used to distinguish between Type A and Type B programs:	<u>  \$750,000  </u>
Auditee qualified as a low-risk auditee?	<u>      </u> yes <u>  X  </u> no

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**Section II – Financial Statement Findings**

**2016-001: 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 2015-001 from the prior audit.

**2016-002: 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 YEAR ENDED JUNE 30, 2016**

**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 prevent 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 YEAR ENDED JUNE 30, 2016**

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 2015-002 from the prior audit.

**2016-003: 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 2015-003 from the prior audit.

**2016-004: 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 YEAR ENDED JUNE 30, 2016**

**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**

This is a repeat finding of finding 2015-004 from the prior audit.

**2016-005: 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 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 YEAR ENDED JUNE 30, 2016**

**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 Uniform Guidance.
- 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 2015-005 from the prior audit.

**2016-006: 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 maintains a separate construction bank account which is 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 building fund revenues and expenses are understated.

**Recommendation**

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

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

The district understands and accepts the finding that disbursements were made from a separate construction bank account and this bank account was not included in the District's general

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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 2015-006 from the prior audit.

**2016-007: 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 year 2016, it was noted that not all of the District's receipt and disbursement activity was 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 2015-007 from the prior audit.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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

See finding 2016-005 reported in Section II.

**2016-008: 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 year ending June 30, 2016 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.

**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 repeat finding of finding 2015-008 from the prior audit.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**SCHEDULE OF PRIOR YEAR FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**2015-001: Financial Statements Prepared by Auditor**

**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.

**Status of Finding**

This finding is repeated in the current year. See 2016-001.

**2015-002: Segregation of Duties**

**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 2016-002.

**2015-003: Capital Assets**

**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.

**Status of Finding**

This finding is repeated in the current year. See 2016-003.

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**SCHEDULE OF PRIOR YEAR FINDINGS - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**2015-004: Account Reconciliations**

**Criteria**

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

**Condition**

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

**Status of Finding**

This finding is repeated in the current year. See 2016-004.

**2015-005: Accounting Records**

**Criteria**

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

**Status of Finding**

This finding is repeated in the current year. See 2016-005.

**2015-006: 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 maintains a separate construction bank account which is not included in the District's general ledger.

**Status of Finding**

This finding is repeated in the current year. See 2016-006.

**2015-007: 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

**SOLEN PUBLIC SCHOOL DISTRICT NO. 3**  
**SCHEDULE OF PRIOR YEAR FINDINGS - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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 2015, 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.

**Status of Finding**

This finding is repeated in the current year. See 2016-007.

**2015-008: Untimely Filing of Data Collection Form**

**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 year ending June 30, 2015 was not timely filed.

**Status of Finding**

This finding is repeated in the current year. See 2016-008.



## SOLEN PUBLIC SCHOOL DISTRICT #3

Corrective Action Plan – June 30, 2016

### **2016-001: 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.

### **2016-002: 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.

### **2016-003: 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

Late 2018 / early 2019 when the financial audit for the fiscal year ending June 30, 2018 is performed and completed.

### **2016-004: 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

Late 2018 / early 2019 when the financial audit for the fiscal year ending June 30, 2018 is performed and completed.



### **2016-005: 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

Late 2018 / early 2019 when the financial audit for the fiscal year ending June 30, 2018 is performed and completed.

### **2016-006: 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

Late 2018 / early 2019 when the financial audit for the fiscal year ending June 30, 2018 is performed and completed.

### **2016-007: 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

Late 2018 / early 2019 when the financial audit for the fiscal year ending June 30, 2018 is performed and completed.

### **2016-008: 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

Late 2018 / early 2019 when the financial audit for the fiscal year ending June 30, 2018 is performed and completed.

#### Contact Person Regarding all Findings

Justin Fryer, Superintendent