

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

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SOLENS PUBLIC SCHOOL DISTRICT NO. 3
ROSTERS OF SCHOOL OFFICIALS
JUNE 30, 2017

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 |

June 30, 2017

| | |
|----------------------|------------------|
| Louis DeCouteau, Sr. | President |
| Pete Red Tomahawk | Vice President |
| Steven Bryan Silk | Board Member |
| Lois Two Bears | Board Member |
| Stephanie Tikanye | Board Member |
| Sue Isbell | Board Member |
| Gail Uses Arrow | 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 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, 2017, 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 cash basis of accounting described in Note 2; this includes determining that the 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

Supporting documentation for the accounting records was not available for our audit of the year ended June 30, 2017. Therefore, we were not able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions.

Disclaimer of Opinions

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for the audit opinions. Accordingly, we do not express opinions on the 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 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 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 relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it

Correction of an Error

As noted in Note 10 to the financial statements, a prior period adjustment has been made to properly state beginning year fund balances and net position. Our opinions are not modified with respect to these matters.

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 December 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Solen Public School District No. 3's 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**

December 10, 2018

SOLEN PUBLIC SCHOOL DISTRICT NO. 3
STATEMENT OF NET POSITION – CASH BASIS
JUNE 30, 2017

| | |
|--------------------|-------------------------|
| ASSETS | |
| Current assets | |
| Cash | \$ 237,822 |
| NET POSITION | |
| Restricted | 32,315 |
| Unrestricted | 205,507 |
| TOTAL NET POSITION | <u>\$ 237,822</u> |

See Notes to the Financial Statements

SOLEN PUBLIC SCHOOL DISTRICT NO. 3
STATEMENT OF ACTIVITIES – CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2017

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position Governmental Activities |
|---|---------------------|----------------------------|--|---|
| | | Charges for Services | Operating Grants and Contributions | |
| GOVERNMENTAL ACTIVITIES | | | | |
| Regular instruction | \$ 2,363,958 | \$ - | \$ 5,225,802 | \$ 2,861,844 |
| Special instruction | 416,297 | - | 115,675 | (300,622) |
| Administration | 496,298 | - | - | (496,298) |
| Operation and maintenance | 874,980 | - | 22,578 | (852,402) |
| Student activities | 221,204 | - | - | (221,204) |
| Student transportation | 366,801 | - | 85,928 | (280,873) |
| Food service | 258,209 | - | 161,084 | (97,125) |
| TOTAL GOVERNMENTAL ACTIVITIES | \$ 4,997,747 | \$ - | \$ 5,611,067 | 613,320 |
| GENERAL REVENUES | | | | |
| Property taxes, levied for general purposes | | | | 185,003 |
| Miscellaneous revenue | | | | 43 |
| TOTAL GENERAL REVENUES | | | | 185,046 |
| Change in net position | | | | 798,366 |
| Net position, beginning of year, as previously reported | | | | 1,496,217 |
| Prior period adjustment | | | | (2,056,761) |
| Net position, beginning of year, restated | | | | (560,544) |
| Net position - ending | | | | \$ 237,822 |

See Notes to the Financial Statements

SOLEN PUBLIC SCHOOL DISTRICT NO. 3
BALANCE SHEET - GOVERNMENTAL FUNDS – CASH BASIS
JUNE 30, 2017

| | General Fund | Building Fund | Johnson O'Malley Fund | Total Governmental Funds |
|----------------------------|-------------------|------------------|--------------------------|--------------------------------|
| ASSETS | | | | |
| Cash | \$ 205,507 | \$ 29,907 | \$ 2,408 | \$ 237,822 |
| FUND BALANCES | | | | |
| Restricted | \$ - | \$ 29,907 | \$ 2,408 | \$ 32,315 |
| Unassigned | 205,507 | - | - | 205,507 |
| TOTAL FUND BALANCES | \$ 205,507 | \$ 29,907 | \$ 2,408 | \$ 237,822 |

See Notes to the Financial Statements

SOLEN PUBLIC SCHOOL DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS – CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2017

| | General Fund | Building Fund | Johnson O'Malley Fund | Total Governmental Funds |
|---|-------------------|------------------|--------------------------|--------------------------------|
| REVENUES | | | | |
| Local sources | \$ 335,794 | \$ - | \$ - | \$ 335,794 |
| State sources | 3,054,645 | - | - | 3,054,645 |
| Federal sources | 2,374,336 | 22,578 | 8,717 | 2,405,631 |
| Miscellaneous | 43 | - | - | 43 |
| TOTAL REVENUES | 5,764,818 | 22,578 | 8,717 | 5,796,113 |
| EXPENDITURES | | | | |
| Current | | | | |
| Regular instruction | 2,363,957 | - | - | 2,363,957 |
| Special instruction | 416,297 | - | - | 416,297 |
| Administration | 496,299 | - | - | 496,299 |
| Operations and maintenance | 466,762 | 408,218 | - | 874,980 |
| Student activities | 221,204 | - | - | 221,204 |
| Student transportation | 366,801 | - | - | 366,801 |
| Food service | 258,209 | - | - | 258,209 |
| TOTAL EXPENDITURES | 4,589,529 | 408,218 | - | 4,997,747 |
| Excess of revenues over (under) expenditures | 1,175,289 | (385,640) | 8,717 | 798,366 |
| Net change in fund balances | 1,175,289 | (385,640) | 8,717 | 798,366 |
| Fund balances - beginning of year, as originally stated | 1,561,277 | 61 | - | 1,561,338 |
| Prior period adjustment | (2,531,059) | 415,486 | (6,309) | (2,121,882) |
| Fund balances - beginning of year, restated | (969,782) | 415,547 | (6,309) | (560,544) |
| Fund balances - ending | \$ 205,507 | \$ 29,907 | \$ 2,408 | \$ 237,822 |

See Notes to the Financial Statements

SOLENS PUBLIC SCHOOL DISTRICT NO. 3
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUND
CASH BASIS
JUNE 30, 2017

Student Activities

| | |
|------------------------------------|------------------|
| ASSETS | |
| Due from student activities groups | <u>\$ 21,502</u> |
| LIABILITIES | |
| Cash overdrafts | <u>\$ 21,502</u> |

SOLE PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 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 – Cash Basis and the Statement of Activities – 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, 2017

The Statement of Activities – Cash Basis demonstrates the degree to which the direct expenses of a given function or segment are 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.

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.

Johnson O’Malley fund – This fund accounts for the financial resources related to the Johnson O’Malley Program which provides educational programs designed to promote and develop students’ native culture and language.

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

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

SOLEN PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

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 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 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 – Cash Basis reports on the sources and uses of current financial resources.

Basis of Accounting

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

The government-wide financial statements and fund financial statements are prepared on the cash basis of accounting. This basis recognizes assets, net position, revenues, and expenditures/expenses when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As the result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

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.

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.

SOLE PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

Net Position

Net position represents the difference between assets and liabilities. 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 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 District'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.

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.

SOLEN PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

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 requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. However, since the statements are prepared on a cash basis, management does not consider there to be any significant estimates.

Revenue Recognition - Property Taxes

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

NOTE 3 DEPOSITS AND INVESTMENTS

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

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

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

SOLE PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

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, 2017, 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.

NOTE 4 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:

| | |
|------|-----------|
| 2018 | \$ 16,356 |
| 2019 | 16,356 |
| 2020 | 13,630 |

NOTE 5 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

SOLE PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

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.

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.

SOLENS PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

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.

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.

SOLEN PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

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

At June 30, 2017, if Solen Public School District No. 3 were to report on the full accrual basis, a liability of \$3,479,327 for its proportionate share of the net pension liability would have been reported. The net pension liability was measured as of June 30, 2016 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, 2016, the Employer's proportion was 0.237487 percent, which was a decrease of 0.003431 percent from its proportion measured as of June 30, 2015.

Actuarial Assumptions

The total pension liability in the July 1, 2016 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, 2016, 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

SOLE PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

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 | 58% | 7.30% |
| Global Fixed Income | 23% | 0.88% |
| Global Real Assets | 18% | 5.32% |
| Cash Equivalents | 1% | 0.00% |

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. 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, 2016, 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, 2016. 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, 2016.

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 6 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. The plan provides retirement, disability, and death 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 nine 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; one member elected by the retired public employees, and two members of the legislative assembly appointed by the chairman of the legislative management.

SOLE PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

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.

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.

SOLEN PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

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

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

At June 30, 2017, if Solen Public School District No. 3 were to report on the full accrual basis, a liability of \$273,355 for its proportionate share of the net pension liability would have been reported. The net pension liability was measured as of June 30, 2016, 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, 2016, the Employer's proportion was 0.028048 percent, which was an increase of 0.012947 percent from its proportion measured as of June 30, 2015.

Actuarial Assumptions

The total pension liability in the July 1, 2016 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, 2016, 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

SOLEN PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

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% |
| 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, 2016. 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, 2016, 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, 2016. 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, 2016.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. Requests to obtain or review this report should be addressed to the Executive Director – NDPERS, P.O. Box 1657; Bismarck, ND 58502-1657.

NOTE 7 RISK MANAGEMENT

The Solen Public School District No. 3 is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters.

SOLE PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

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 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.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 8 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, 2017.

NOTE 9 ISSUED BUT NON-EFFECTIVE PRONOUNCEMENTS

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. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are

SOLE PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

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. 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

SOLE PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

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.

GASB Statement No. 90, *Majority Equity Interests*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement provides guidance for reporting when a government has majority equity interest in legally separate organizations. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. If government's holding of that equity interest meets the definition of an investment, as defined by GASB No. 72, the equity interest should be reported as an investment and measured using the equity method and not as a component unit of the government. If a government's holding of a majority interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and therefore, the government should report the legally separate organization as a component unit.

SOLE PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

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

NOTE 10 PRIOR PERIOD ADJUSTMENT

The District posted a prior period adjustment to its June 30, 2016 financial statements to properly record fund balances. The net effect of this prior period adjustment was a decrease in fund balance and cash in the General Fund and Johnson O'Malley Fund of \$2,531,059 and \$6,309, respectively, and an increase of fund balance and cash in the Building Fund of \$415,486. The adjustments resulted in a net decrease of \$2,121,882 to net position on the Statement of Activities – Cash Basis.

The District also posted a prior period adjustment to its June 30, 2016 financial statement to properly record net position. The District converted from the modified cash basis of accounting to the cash basis of accounting during the year ended June 30, 2017. The June 30, 2016 net position was adjusted for this conversion retrospectively. The adjustment resulted in a net increase of \$65,121 to net position on the Statement of Activities – Cash Basis.

NOTE 11 COMMITMENT

The District owes approximately \$2.3 million to the Internal Revenue Service for employee and employer payroll taxes and employees' federal withholding not paid for the time period January 1, 2013 through December 31, 2017. The amount owed does not include penalty and interest for the late payment on payroll taxes as these have not yet been assessed by the Internal Revenue Service.

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 was estimated to be approximately \$278,000 and was 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 December 10, 2018, which is the date these financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

SOLEN PUBLIC SCHOOL DISTRICT NO. 3
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

| <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 | 84.060 | | \$ 45,549 |
| Impact Aid | 84.041 | | 1,136,792 |
| Passed through North Dakota Department of Public Instruction: | | | |
| Title I - Grants to LEAs | 84.010 | PII019 | 340,854 |
| Title IV - 21st Century Community Learning Centers | 84.287 | PII066 | 19,265 |
| Title II A - Supporting Effective Instruction State Grant | 84.367 | PII046 | 64,809 |
| Title VI - Grants for Assessment & Related Activities | 84.369 | PII047 | 8,008 |
| School Improvement Grants | 84.377 | PII019 | <u>660,701</u> |
| Total U.S. Department of Education | | | <u>2,275,978</u> |
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| Passed through North Dakota Department of Public Instruction: | | | |
| School Breakfast Program | 10.553 | PII006 | 30,977 |
| National School Lunch Program | 10.555 | PII006 | 70,681 |
| Summer Food Service Program for Children | 10.559 | PII008 | 14,799 |
| Child Nutrition Cluster | | | <u>116,457</u> |
| Fresh Fruit and Vegetable Program | 10.582 | PII009 | <u>4,479</u> |
| Total U.S. Department of Agriculture | | | <u>120,936</u> |
| U.S. DEPARTMENT OF THE INTERIOR | | | |
| Direct Awards: | | | |
| 477 Cluster: | | | |
| Indian Education - Assistance to Schools | 15.130 | | <u>8,717</u> |
| Total U.S. Department of the Interior | | | <u>8,717</u> |
| Total expenditures of federal awards | | | <u>\$ 2,405,631</u> |

SOLEN PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards represent amounts expended from federal programs during the year ended June 30, 2017 based on the 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 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 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, 2017, 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 December 10, 2018. Our report disclaims an opinion on such financial statements because detailed supporting information of the financial records was 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 2017-001 through 2017-007 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2017-003 and 2017-007. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the 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**

December 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, 2017. Solen Public School District No. 3's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Solen Public School District No. 3's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 2017-005, 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, 2017, 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 is described in the accompanying schedule of findings and questioned costs as item 2017-007. 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 2017-004 through 2017-007 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**

December 10, 2018

SOLEN PUBLIC SCHOOL DISTRICT NO. 3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

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

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

Disclaimer

Any audit findings disclosed that are Required to be reported in accordance with 2 CFR 200.516(a)?

 x yes no

CFDA Number(s)

Name of Federal Program or Cluster

84.041

Impact Aid

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

 \$750,000

Auditee qualified as a low-risk auditee?

 yes X no

SOLEN PUBLIC SCHOOL DISTRICT NO. 3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2017

Section II – Financial Statement Findings

2017-001: 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 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 this 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 2016-001 from the prior audit.

2017-002: 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, 2017

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, 2017

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 2016-002 from the prior audit.

2017-003: Payroll Taxes – Material Weakness

Criteria

An employer is required to withhold federal income and payroll taxes from its employee's wages and pay them to the Internal Revenue Service (IRS) in addition to the employer's portion of payroll taxes. Employers are required to make federal payroll tax payments to the government as well as filing the proper reporting and information returns.

Condition

The District owes approximately \$2.3 million to the Internal Revenue Service for employee and employer payroll taxes and employees' federal withholding not paid for the time period January 1, 2013 through December 31, 2017. Furthermore, the District did not file the required reports related to payroll taxes.

Cause

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

Effect

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

Recommendation

We recommend the District adopt formal policies and procedures regarding payroll taxes and provide additional training to accounting staff as necessary to ensure payroll reports are timely completed along with timely remittance of payroll taxes to the IRS.

Views of Responsible Officials and Planned Corrective Actions

The District is aware of the unremitted taxes and unfiled reports and is in the process of paying all taxes owed.

Indication of Repeat Finding

This is a new finding.

2017-004: 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. Old outstanding checks should be reviewed to determine if new checks should be re-issued or if checks were duplicates and need to be voided.

SOLEN PUBLIC SCHOOL DISTRICT NO. 3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2017

Condition

The District's bank statements are not being timely reconciled to the District's general ledger balances. In addition, the School District reported \$1.4 million of outstanding checks on its general fund bank reconciliation. These checks include checks dating back to 2014.

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 2016-004 from the prior audit.

2017-005: 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.

SOLENS PUBLIC SCHOOL DISTRICT NO. 3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2017

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 2016-005 from the prior audit.

2017-006: 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

The District recorded fiscal year 2017 receipt and disbursement activity in the District's accounting software during the year 2018. Furthermore, as part of reconciling the bank accounts, the District learned many receipts and disbursements were not recorded in the accounting system and several disbursements were recorded in the wrong fiscal year as checks were back dated in the accounting system.

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

SOLEN PUBLIC SCHOOL DISTRICT NO. 3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2017

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 2016-007 from the prior audit.

Section III – Federal Award Findings and Questioned Costs

See finding 2017-005 reported in Section II.

2017-007: 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, 2017 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 March 31, 2019.

Indication of Repeat Finding

This is a repeat finding of finding 2016-008 from the prior audit.

SOLEN PUBLIC SCHOOL DISTRICT NO. 3
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

2016-001: 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 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 2017-001.

2016-002: 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 2017-002.

2016-003: 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

The District has changed the basis of accounting used from the modified cash basis to the cash basis. Capital assets are not presented under the cash basis of accounting. This finding is not repeated in the current year.

SOLEN PUBLIC SCHOOL DISTRICT NO. 3
SCHEDULE OF PRIOR YEAR FINDINGS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2017

2016-004: 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 2017-004.

2016-005: 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 2017-005.

2016-006: 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

The construction account was included in the general ledger in the fiscal year 2017, therefore this finding is not repeated in the current year.

2016-007: 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

SOLEN PUBLIC SCHOOL DISTRICT NO. 3
SCHEDULE OF PRIOR YEAR FINDINGS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2017

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.

Status of Finding

This finding is repeated in the current year. See 2017-006.

2016-008: 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, 2016 was not timely filed.

Status of Finding

This finding is repeated in the current year. See 2017-007.



SOLEN PUBLIC SCHOOL DISTRICT #3

Corrective Action Plan – June 30, 2017

2017-001: 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.

2017-002: 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.

2017-003: Payroll Taxes

Corrective Action Plan

The management and School Board of Solen Public School District No. 3 have implemented procedures to ensure that all payroll taxes are properly reported and remitted and are working on paying all taxes owed.

Completion Date

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

2017-004: 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.

SOLENS PUBLIC SCHOOL DISTRICT NO. 3
CORRECTIVE ACTION PLAN - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2017

2017-005: 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.

2017-006: 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.

2017-007: 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