



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Solen Public School District No. 3

Solen, North Dakota

Audit Report for the Year Ended June 30, 2019

Client Code: PS43320



Photo credit: North Dakota Tourism



Office of the
State Auditor



WHAT WE LOOKED AT AND WHY

Our team reviewed financial transactions, expenditures, as well as compliance with laws and regulations.

WHAT WE FOUND



FINDING 2

Multi-Year Bank Reconciliation Issues Totaling \$776,745

Our team identified \$776,745 of inconsistent information between account balances. These issues have been accumulating for multiple years.

Read more on page 34



FINDING 3

Inaccurate Financials Submitted to DPI

The financial information submitted to the North Dakota Department of Public Instruction did not align with financial records. Those records impact funding allocations.

Read more on page 35



FINDING 4

Incorrect Fund Balances

Incorrect fund balances were listed in the:

- General Fund
- Building Fund
- Johnson O'Malley Fund
- Student Activities Fund

Read more on page 36



FINDING 7
AND 10

Missing Board Approvals for Nearly a \$1,000,000

The board did not properly approve 53 checks, totaling \$647,368. They also did not properly approve two checks for construction totaling \$266,919.

Read more on page 39 and 42



FINDING 8
AND 9

Lack of Documentation for \$29,874

Supporting documentation was not found for:

- \$17,628 in checks to a former employee
 - \$949 in checks to vendors
- \$11,297 in credit card purchases

Read more on page 40 and 41

ADDITIONAL CONCERNS IDENTIFIED



Our team identified 11 total areas of concern over the course of our audit. Complete details on these can be found in the full audit report.

SOLEN PUBLIC SCHOOL DISTRICT NO. 3

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SOLEN PUBLIC SCHOOL DISTRICT NO. 3

School Officials and Audit Personnel

June 30, 2019

SCHOOL OFFICIALS

Maxine Thunder Hawk	President
Sue Isbell	Vice President
Shannon Thunder Hawk	Board Member
Madonna Red Bear	Board Member
Stephanie Tikaye	Board Member
Greta Conica	Board Member
Patty Kelly	Board Member
Justin Fryer	Superintendent
Melissa Eagle	Business Manager

AUDIT PERSONNEL

Jonathan Worrall, CPA	Audit In-Charge
Heath Erickson, CPA	Audit Manager

STATE AUDITOR
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Solen Public School District No. 3, Solen, North Dakota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Solen Public School District No. 3's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified and adverse audit opinions.

Summary of Opinions

Governmental Activities	Adverse
Major Funds	Adverse
Aggregate Remaining Fund Information	Unmodified

Basis for Adverse Opinions on Governmental Activities and Major Funds

The financial statements of Solen Public School District No. 3 contained incorrect bank reconciliations, and material unsupported differences for fund balance and net position for the year ended June 30, 2019. Accounting principles generally accepted in the United States of America requires financial statements to be reliable, accurate, and free of material misstatement. Material balancing adjustments to fund balance for the year ended June 30, 2019 were required as follows:

Fund	Adjustment
General Fund	\$ 1,576,990
Building Fund	(208,771)
Johnson O'Malley Fund	3,179
Student Activities Fund	6,011
Total	\$ 1,377,409

Adverse Opinions

In our opinion, because of the effects of the matter discussed in the "Basis for Adverse Opinions on Governmental Activities and Major Funds" paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities, and each major fund of the Solen Public School District No. 3, Solen, North Dakota, as of June 30, 2019, and the changes in financial position thereof for the year then ended.

Unmodified Opinion

In our opinion, the financial statements present fairly, in all material respects, the respective financial position of the aggregate remaining fund information of the governmental funds of the Solen Public School District No. 3, North Dakota, as of June 30, 2019 and the respective changes in financial position modified cash basis thereof, for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to that matter.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Solen Public School District No. 3 has elected to change its method of accounting for the financial statements. Effective July 1, 2018, Solen Public School District No. 3's financial statements will be prepared under the modified cash basis of accounting instead of under the cash basis of accounting. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *schedule of expenditures of federal awards* is 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 (Uniform Guidance), and is not a required part of the financial statements. Because of the significance of the matter described above in the *Basis for Adverse Opinions on Governmental Activities and Major Funds* paragraph, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated June 2, 2021 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, 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.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
June 2, 2021

SOLEN PUBLIC SCHOOL DISTRICT NO. 3

Statement of Net Position - Modified Cash Basis

June 30, 2019

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 1,564,236
Capital Assets	
Nondepreciable	1,713,569
Depreciable, Net	<u>416,286</u>
 Total Assets	 <u>\$ 3,694,091</u>
 NET POSITION	
Net Investment in Capital Assets	\$ 2,129,855
Restricted for	
Capital Projects	715,625
Special Purposes	3,547
Unrestricted	<u>845,064</u>
 Total Net Position	 <u><u>\$ 3,694,091</u></u>

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

SOLE PUBLIC SCHOOL DISTRICT NO. 3

Statement of Activities - Modified Cash Basis

For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities				Governmental Activities
Regular Instruction	\$ 1,607,248	\$ -	\$ -	\$ (1,607,248)
Special Education	420,900	118,480	-	(302,420)
Federal Programs	865,209	2,732,873	1,491,229	3,358,893
District Wide Services	6,113	-	-	(6,113)
Administration	567,067	-	-	(567,067)
School Food Services	443,372	-	-	(443,372)
Operations and Maintenance	392,045	-	-	(392,045)
Transportation	321,408	79,976	-	(241,432)
Co-curricular Activities	91,219	-	-	(91,219)
Other Programs & Services	1,971,505	25,725	-	(1,945,780)
Total Governmental Activities	<u>\$ 6,686,086</u>	<u>\$ 2,957,054</u>	<u>\$ 1,491,229</u>	<u>\$ (2,237,803)</u>
General Revenues				
Property Taxes				\$ 156,252
Unrestricted State Aid				2,042,024
Interest Earnings				5,636
Miscellaneous Revenue				<u>1,053,113</u>
Total General Revenues				<u>\$ 3,257,025</u>
Changes in Net Position				<u>\$ 1,019,222</u>
Net Position - July 1				<u>\$ 2,047,484</u>
Prior Period Adjustment				<u>\$ 627,385</u>
Net Position - July 1, as restated				<u>\$ 2,674,869</u>
Net Position - June 30				<u><u>\$ 3,694,091</u></u>

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

SOLEN PUBLIC SCHOOL DISTRICT NO. 3

Balance Sheet – Governmental Funds - Modified Cash Basis

June 30, 2019

	General	Building Fund	Johnson O'Malley Fund	Total Governmental Funds
ASSETS				
Cash	\$ 845,064	\$ 715,625	\$ 3,547	\$ 1,564,236
FUND BALANCES				
Restricted				
Capital Projects	-	715,625	-	715,625
Special Purposes	-	-	3,547	3,547
Unassigned	845,064	-	-	845,064
Total Fund Balances	\$ 845,064	\$ 715,625	\$ 3,547	\$ 1,564,236
Total Liabilities and Fund Balances	\$ 845,064	\$ 715,625	\$ 3,547	\$ 1,564,236

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

SOLEN PUBLIC SCHOOL DISTRICT NO. 3

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position - Modified Cash Basis
June 30, 2019

Total Fund Balances for Governmental Funds	\$ 1,564,236
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Total net position reported for governmental activities in the statement of net position
is different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.	<u>2,129,855</u>
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Total Net Position of Governmental Activities	<u>\$ 3,694,091</u>
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The notes to the financial statements are an integral part of this statement.

SOLE PUBLIC SCHOOL DISTRICT NO. 3

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds - Modified Cash Basis
For the Year Ended June 30, 2019

	General	Building Fund	Johnson O'Malley Fund	Total Governmental Funds
REVENUES				
Local Sources	\$ 161,887	\$ -	\$ -	\$ 161,887
State Sources	2,266,205	-	-	2,266,205
Federal Sources	4,206,460	-	17,642	4,224,102
Other Sources	1,031,938	10,924	10,252	1,053,114
Total Revenues	\$ 7,666,490	\$ 10,924	\$ 27,894	\$ 7,705,308
EXPENDITURES				
Regular Instruction	\$ 1,586,649	\$ -	\$ 16,693	\$ 1,603,342
Special Education	420,483	-	-	420,483
Federal Programs	865,209	-	-	865,209
District Wide Services	2,613	-	-	2,613
Administration	563,317	-	-	563,317
School Food Services	443,372	-	-	443,372
Operations and Maintenance	392,045	-	-	392,045
Transportation	282,579	-	-	282,579
Co-curricular Activities	125,547	-	-	125,547
Other Programs and Services	1,964,660	6,845	-	1,971,505
Capital Outlay	-	1,518,544	-	1,518,544
Total Expenditures	\$ 6,646,474	\$ 1,525,389	\$ 16,693	\$ 8,188,556
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,020,016	\$ (1,514,465)	\$ 11,201	\$ (483,248)
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 11,777	\$ 1,528,483	\$ 712	\$ 1,540,972
Transfers Out	(1,529,195)	(3,093)	(8,684)	(1,540,972)
Total Other Financing Sources and Uses	\$ (1,517,418)	\$ 1,525,390	\$ (7,972)	\$ -
Net Change in Fund Balances	\$ (497,402)	\$ 10,925	\$ 3,229	\$ (483,248)
Fund Balances - July 1	\$ 1,329,062	\$ 704,700	\$ 13,722	\$ 2,047,484
Prior Period Adjustment	\$ 13,404	\$ -	\$ (13,404)	\$ -
Fund Balances - July 1 Restated	\$ 1,342,466	\$ 704,700	\$ 318	\$ 2,047,484
Fund Balances - June 30	\$ 845,064	\$ 715,625	\$ 3,547	\$ 1,564,236

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

SOLENS PUBLIC SCHOOL DISTRICT NO. 3

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
to the Statement of Activities - Modified Cash Basis
For the Year Ended June 30, 2019

Net Change in *Fund Balances* - Total Governmental Funds \$ (483,248)

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current year.

Capital Outlay

\$ 1,567,109

Depreciation Expense

(64,639)

1,502,470

Change in Net Position of Governmental Activities

\$ 1,019,222

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

SOLEN PUBLIC SCHOOL DISTRICT NO. 3

Statement of Fiduciary Assets and Liabilities – Agency Funds - Modified Cash Basis
June 30, 2019

	Agency Funds
ASSETS	
Cash	<u>\$ 3,390</u>
LIABILITIES	
Due to Student Activities Groups	<u>3,390</u>

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

SOLEN PUBLIC SCHOOL DISTRICT NO. 3

Notes to the Financial Statements
For the Year Ended June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Solen Public School District No. 3 ("School District") have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

The accompanying financial statements present the activities of the School District. The School District has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationships with the School District such that exclusion would cause the School District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the School 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 School District.

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

Basis of Presentation

Government-wide statements. The statement of net position and the statement of activities display information about the School District. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the School's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, interest, and non-restricted grants and contributions, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the School District's funds including its fiduciary funds. Separate statements for each fund category—*governmental* and *fiduciary* are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The School District reports the following major governmental funds:

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

Building Fund - This fund accounts for financial resources related to the construction of a new school facility.

Johnson O'Malley Fund - This fund accounts for financial resources related to the Johnson O'Malley program which provides educational programs designed to promote and develop students native culture and language.

Additionally, the School reports the following fund type:

Agency Funds. These funds account for assets by the School in a custodial capacity as an agent on behalf of others. The agency fund accounts for the financial transactions related to the student activity program.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide and Fiduciary Fund Financial Statements. The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus, within the limitations of the modified cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred.

This basis differs from accounting principles generally accepted in the United States of America because accounts receivable, accounts payable, and accrued expenses are not included in the financial statements. Only capital assets are recorded under the basis of accounting described above on the statement of net position. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Cash

Cash includes amounts in demand deposits and money market accounts.

Capital Assets

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

Capital assets are depreciated using the straight-line method over the following estimated useful lives (in years):

Buildings	50-100
Vehicles	5-15
Equipment	5-15

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

In the fund financial statements, the face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs are reported as debt service expenditures.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Balances

Fund Balance Spending Policy. It is the policy of the School to spend restricted resources first, followed by unrestricted resources. It is also the policy of the Board to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

Restricted Fund Balances. Restricted fund balances are shown by primary function on the balance sheet. Restricted fund balances are restricted by tax levies (enabling legislation) and by outside 3rd parties (state and federal governments for various grants & reimbursements).

Unassigned Fund Balances. Unassigned fund balances are reported in the general fund and for negative fund balances at year-end.

Net Position

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

Net investment in capital assets is reported for capital assets less accumulated depreciation, as well as net of any related debt to purchase or finance the capital assets. These assets are not available for future spending.

Restrictions of net position in the statement of net position are due to restricted tax levies and restricted Federal & State grants/reimbursements.

Unrestricted net position is primarily unrestricted amounts related to the general fund and negative fund balances.

Interfund Transactions

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

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

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

NOTE 2 CHANGE IN ACCOUNTING PRINCIPLE

As of July 1, 2018, the financial statements are reported under modified cash basis of accounting, which is another comprehensive basis of accounting. Prior to this change, the City reported under the cash basis of accounting, which is another comprehensive basis of accounting. The modified cash basis method is preferable to the cash basis method. The impact to beginning fund balances and net position can be seen in Note 3.

NOTE 3 PRIOR PERIOD ADJUSTMENTS

Change in Accounting Principle:

As discussed in Note 2, the financial statements were restated to reflect a change in account principle. The adjustment consists of recording beginning values for capital assets.

Adjustments to beginning net position are as follows:

	Amounts
Beginning Net Position, as previously reported	\$ 2,047,484
Adjustments to restate the July 1, 2018 Net Position:	
Change in Accounting Principle (Modified Cash)	627,385
Net Position July 1, 2018, as restated	<u>\$ 2,674,869</u>

Fund Balance Correction

Adjustments were necessary to restate the beginning fund balances for the General Fund and JOM Fund. Adjustments are as follows:

	General Fund	JOM Fund
Beginning Fund Balance, as previously reported	\$ 1,329,062	\$ 13,722
Adjustments to restate the July 1, 2018 Fund Balance:		
Fund Balance Correction	13,404	(13,404)
Fund Balance July 1, 2018, as restated	<u>\$ 1,342,466</u>	<u>\$ 318</u>

NOTE 4 DEPOSITS

Custodial Credit Risk

Custodial credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution's failure, the School would not be able to recover the deposits or collateralized securities that in the possession of the outside parties. The School does not have a formal policy regarding deposits that limits the amount it may invest in any one issuer.

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

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

At year ended June 30, 2019, the School District's carrying amount of deposits totaled \$1,567,625, and the bank balances totaled \$1,840,492. Of the bank balances, \$500,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

NOTE 5 PROPERTY TAXES

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

NOTE 6 TRANSFERS

Transfers are used to move unrestricted general revenue to finance programs that accounts for in other funds in accordance with budget authority and to subsidize other programs.

NOTE 7 CAPITAL ASSETS

Primary Government

The following is a summary of changes in capital assets for the year ended June 30, 2019:

Governmental Activities	Restated Balance Jul 1	Increases	Decreases	Balance Jun 30
Capital Assets Not Being Depreciated				
Construction in Progress	\$ 195,025	\$1,518,544	\$ -	\$ 1,713,569
Capital Assets Being Depreciated				
Vehicles	\$ 538,325	\$ -	\$ -	\$ 538,325
Equipment/Furniture	98,000	48,565	-	146,565
Total Capital Assets, Being Depreciated	\$ 636,325	\$ 48,565	\$ -	\$ 684,890
Less Accumulated Depreciation				
Vehicles	\$ 179,465	\$ 50,402	\$ -	\$ 229,867
Equipment/Furniture	24,500	14,237	-	38,737
Total Accumulated Depreciation	\$ 203,965	\$ 64,639	\$ -	\$ 268,604
Total Capital Assets Being Depreciated, Net	\$ 432,360	\$ (16,074)	\$ -	\$ 416,286
Governmental Activities Capital Assets, Net	\$ 627,385	\$1,502,470	\$ -	\$ 2,129,855

Depreciation expense was charged to functions of the School as follows:

Regular Instruction	\$ 3,906
Special Education	417
Administration	3,500
Operations/Maintenance	3,750
Transportation	38,829
Co-Curricular	14,237
Total Depreciation Expense	\$ 64,639

NOTE 8 OPERATING LEASES

The School District is engaged in various operating leases Total lease payments made during fiscal year 2019 totaled \$16,344. The remaining lease liability totaling \$13,620 will be due during fiscal year 2020.

NOTE 9 PENSION PLANS

General Information about the TFFR Pension Plan

North Dakota Teachers' Fund for Retirement TFFR

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

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

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

Pension Benefits

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

Tier 1 Grandfathered

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

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

Tier 1 Non-grandfathered

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

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

Tier 2

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

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

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 service 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 a 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 70 ½. 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.

Inflows of Resources Related to Pensions

If reporting on the full accrual basis of accounting, at June 30, 2019 the School District would report a liability of \$3,133,429 for its proportionate share of net pension liability. The net pension liability was measured as of July 1, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The district's proportion of the net pension liability was based on the district's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2018, the district's proportion was .235091%, a decrease of .0013454%.

There were no deferred inflows or outflows of resources reported on the School District's financial statements as they are reporting on the modified cash basis of accounting.

Actuarial Assumptions

The total pension liability in the July 1, 2018 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 were 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 Annuitant 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 were 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, 2018 funding actuarial valuation for TFFR.

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 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%	6.70%
Global Fixed Income	23%	1.50%
Global Real Assets	18%	5.10%
Cash Equivalents	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.75% as of June 30, 2018. 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, 2018, 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, 2018. 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, 2018.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount rate

The following presents the district's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the district's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's Proportionate Share of the Net Pension Liability	\$ 4,231,036	\$ 3,133,429	\$ 2,220,561

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued TFFR financial report. TFFR's Comprehensive Annual Financial Report (CAFR) is located at www.nd.gov/rio/sib/publications/cafr/default.htm.

General Information about the NDPERS Pension Plan

North Dakota Public Employees Retirement System (Main System)

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of 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.

Pension Benefits

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members 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 equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

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

Member and Employer Contributions

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

If reporting on the full accrual basis of accounting, at June 30, 2019 the School District would report a liability of \$751,543 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the district'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, 2018, the School District's proportion was 0.044533%, which was a decrease of .000655% from its proportion measured at June 30, 2017.

There were no deferred inflows or outflows of resources reported on the School District's financial statements as they are reporting on the modified cash basis of accounting.

Actuarial Assumptions

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%																						
Salary increases	<table> <tr> <td>Service at Beginning of year:</td><td>Increase Rate:</td></tr> <tr> <td>0</td><td>15.00%</td></tr> <tr> <td>1</td><td>10.00%</td></tr> <tr> <td>2</td><td>8.00%</td></tr> <tr> <td>Age*</td><td></td></tr> <tr> <td>Under 30</td><td>10.00%</td></tr> <tr> <td>30 – 39</td><td>7.50%</td></tr> <tr> <td>40 – 49</td><td>6.75%</td></tr> <tr> <td>50 – 59</td><td>6.50%</td></tr> <tr> <td>60+</td><td>5.25%</td></tr> <tr> <td colspan="2">* Age-based salary increase rates apply for employees with three or more years of service</td></tr> </table>	Service at Beginning of year:	Increase Rate:	0	15.00%	1	10.00%	2	8.00%	Age*		Under 30	10.00%	30 – 39	7.50%	40 – 49	6.75%	50 – 59	6.50%	60+	5.25%	* Age-based salary increase rates apply for employees with three or more years of service	
Service at Beginning of year:	Increase Rate:																						
0	15.00%																						
1	10.00%																						
2	8.00%																						
Age*																							
Under 30	10.00%																						
30 – 39	7.50%																						
40 – 49	6.75%																						
50 – 59	6.50%																						
60+	5.25%																						
* Age-based salary increase rates apply for employees with three or more years of service																							
Investment rate of return	7.75%, net of investment expenses																						
Cost-of-living adjustments	None																						

SOLEN PUBLIC SCHOOL DISTRICT NO. 3
Notes to the Financial Statements – Continued

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 are based on the RP-2000 Disabled Retiree Mortality Table set back one year for males (no setback for females) multiplied by 125%.

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 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
Domestic Equity	30%	6.05%
International Equity	21%	6.71%
Private Equity	7%	10.2%
Domestic Fixed Income	23%	1.45%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.11%
Cash Equivalents	0%	0.00%

Discount Rate

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate

The following presents School District's proportionate share of the net pension liability calculated using the discount rate of 6.32 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate.

	1% Decrease (5.32%)	Current Discount Rate (6.32%)	1% Increase (7.32%)
School's Proportionate Share of the Net Pension Liability	\$ 1,021,207	\$ 751,543	\$ 526,517

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued NDPERS financial report.

NOTE 10 OPEB PLAN

General Information about the OPEB Plan

North Dakota Public Employees Retirement System

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB 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.

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

If reporting on the full accrual basis of accounting, at June 30, 2019, the School District would report a liability of \$32,928 for their proportionate shares of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability was based on their share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2018, the School District's proportion was 0.041810% which was a decrease of .000830% from its proportion measured June 30, 2017.

Actuarial assumptions

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	Not applicable
Investment Rate of Return	7.50%, 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 long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC 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. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37%	5.80%
Small Cap Domestic Equities	9%	7.05%
International Equities	14%	6.20%
Core-Plus Fixed Income	40%	1.46%

Discount rate

The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the School District's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the Plans as of June 30, 2018, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
School's Proportionate Share of the Net OPEB Liability	\$ 41,662	\$ 32,928	\$ 25,441

NOTE 11 RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions 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 School pays an annual premium to NDIRF for its general liability, automobile, and inland marine insurance coverage. For the School the coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability, and for automobile, and \$92,546 for public assets/mobile equipment and portable property.

The School also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The School pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of two million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the School with blanket fidelity bond coverage in the amount of \$1,100,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

NOTE 12 SUBSEQUENT EVENT FOR CERTIFICATE OF INDEBTEDNESS

On October 2, 2019, the School District issued a Certificate of Indebtedness in the amount of \$400,000. The purpose of the certificate of indebtedness is for construction of a new school building.

NOTE 13 IRS TAX LIEN

During August of 2018 Solen Public School District learned that it owed the IRS a significant amount of money. The district has worked diligently the past two plus years to make a good faith effort to correct this issue. Solen Public School District has paid the IRS \$2,519,895 to date. The district still owes the IRS \$412,000.93 in payroll taxes and intends to pay off this debt by June 30, 2021. The district has incurred a total of \$1,545,528.90 in penalties and \$645,641.34 in interest. The school district anticipates the IRS dropping the penalties and interest when all payroll taxes are current.

SOLE PUBLIC SCHOOL DISTRICT NO. 3

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2019

CFDA Number	Program Title	Pass-Through Grantor's Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the North Dakota State Department of Public Instruction			
Child Nutrition Cluster			
10.555	National School Lunch Program	F10555	\$ 104,691
10.555	National School Lunch Program - Commodities *	F10555	7,031
10.553	School Breakfast Program	F10553	41,000
10.559	Summer Food Service Program For Children	F10559	<u>15,373</u>
Total Child Nutrition Cluster			<u>\$ 168,095</u>
10.560A	State Administrative Expenses for Child Nutrition	F10560A	\$ 1,053
10.582	Fresh Fruit and Vegetable Program	F10582	<u>6,582</u>
Total U.S. Department of Agriculture			<u>\$ 175,730</u>
U.S. DEPARTMENT OF EDUCATION			
Direct Assistance			
84.041	Impact Aid	N/A	\$ 3,221,533
84.060A	Indian Education-Grants to Local Education Agencies	N/A	<u>49,329</u>
Total Direct Assistance			<u>\$ 3,270,862</u>
Passed through the North Dakota State Department of Public Instruction			
84.010	Title I - Grants to LEAs	F84010	\$ 261,630
84.358	Rural Education	F84358	4,273
84.367	Supporting Effective Instruction State Grant	F84367A	56,355
84.377A	School Improvement Grants	F84377C	406,141
84.424A	Student Support and Academic Enrichment Program	F84424A	<u>26,549</u>
Total U.S. Department of Education			<u>\$ 4,025,810</u>
Total Expenditures of Federal Awards			<u><u>\$ 4,201,540</u></u>

* - Noncash assistance

See notes to the Schedule of Expenditures of Federal Awards

SOLE PUBLIC SCHOOL DISTRICT NO. 3

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2019

NOTE 1 BASIS OF PRESENTATION / ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the School District under programs of the federal government for the year ended June 30, 2019. The information in the schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Uniform Guidance. Because the schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position or changes in net position of the School District. Expenditures represent only the federally funded portions of the program. School District records should be consulted to determine amounts expended or matched from non-federal sources.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in Subpart E of the *Uniform Guidance*, wherein certain types of expenditures are allowable or are limited as to reimbursement.

NOTE 3 NON-CASH AWARDS

The amount of commodities reported on the schedule is the value of the supplemental food program distributed by the district during the year as priced by the North Dakota Department of Public Instruction.

NOTE 4 PASS-THROUGH GRANT NUMBER

For Federal programs marked "N/A", the School District was unable to obtain a pass-through grant number.

NOTE 5 INDIRECT COST RATE

Solen Public School District has not elected to use the 10-percent de minimis cost rate as allowed under Uniform Guidance.



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Solen Public School District No. 3 as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Solen Public School District No. 3's basis financial statements, and have issued our report thereon dated June 2, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Solen Public School District No. 3's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 2019-001 through 2019-009 that we consider to be material weaknesses.

SOLEN PUBLIC SCHOOL DISTRICT NO. 3

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* - Continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Solen Public School District No. 3's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Solen Public School District No. 3's Response to Findings

Solen Public School District No. 3'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.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
June 2, 2021

STATE AUDITOR
Joshua C. Gallion



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STATE CAPITOL
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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAMS; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited Solen Public School District No. 3's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of Solen Public School District No. 3's major federal programs for the year ended June 30, 2019. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 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 Solen Public School District No. 3's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Solen Public School District No. 3's compliance.

Opinion on Each Major Federal Program

In our opinion, Solen Public School District No. 3 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

SOLEN PUBLIC SCHOOL DISTRICT NO. 3

Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance – Continued

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 compliance requirements referred to above. In planning and performing our audit of compliance, we considered Solen Public School District No. 3'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 the 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 compliance requirement 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 and significant deficiencies may exist that were not identified. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2019-010 and 2019-011 to be material weaknesses.

Solen Public School District No. 3's response to the internal control over compliance finding 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.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
June 2, 2021

SOLENS PUBLIC SCHOOL DISTRICT NO. 3

Summary of Auditor's Results
For the Year Ended June 30, 2019

Financial Statements

Type of Report Issued:

Governmental Activities

Major Funds

Aggregate Remaining Fund Information

Adverse

Adverse

Unmodified

Internal control over financial reporting

Material weaknesses identified?

X Yes None Noted

Significant deficiencies identified not considered to be material weaknesses?

Yes X None Noted

Noncompliance material to financial statements noted?

Yes X None Noted

Federal Awards

Internal Control Over Major Programs

Material weaknesses identified?

X Yes None noted

Reportable conditions identified not considered to be material weaknesses?

Yes X None noted

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with CFR §200.516 (Uniform Guidance) requirements?

X Yes None noted

Identification of Major Programs

CFDA Number

Name of Federal Program or Cluster

84.041

Impact Aid

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

\$ 750,000

Auditee qualified as low-risk auditee?

Yes X No

SOLENS PUBLIC SCHOOL DISTRICT NO. 3

Schedule of Audit Findings and Questioned Costs

For the Year Ended June 30, 2019

Section I - Financial Statement Findings

2019-001 FINANCIAL STATEMENT PREPARATION – MATERIAL WEAKNESS

Condition

Solen Public School District currently does not prepare the financial statements, including the accompanying note disclosures, as required by the modified cash basis of accounting. Thus, management has elected to have the auditors assist in the preparation of the financial statements and note disclosures.

Effect

There is an increased risk of material misstatement of the Solen Public School District's financial statements.

Cause

Management chose not to allocate Solen Public School District's resources for preparation of the financial statements.

Criteria

Solen Public School District is responsible for the preparation of its annual financial statements and related note disclosures to ensure they are reliable, accurate, free of material misstatement, and in accordance with the modified cash basis of accounting.

Prior Recommendation

Yes.

Recommendation

We recommend Solen Public School District consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future.

Solen Public School District's Response

See Corrective Action Plan

2019-002 BANK RECONCILIATIONS – MATERIAL WEAKNESS

Condition

During testing of the June 30, 2019 bank reconciliations of Solen Public School District, there was an unreconciled net difference for each fund as follows:

Fund	Client Bank Reconciliation Balance	General Ledger Balance	Difference
General Fund	\$ (1,057,696)	\$ (731,926)	\$ (325,770)
Building Fund	510,625	924,396	(413,771)
Johnson O'Malley Fund	(10,775)	368	(11,143)
Student Activities Fund	(28,683)	(2,622)	(26,061)
Total	\$ (586,529)	\$ 190,216	\$ (776,745)

The difference above has been accumulating over multiple years.

Effect

There is an increased risk of material misstatement to Solen Public School District's financial statements whether due to error or fraud if bank reconciliations are not complete and accurate. Further, an auditor prepared bank reconciliation was necessary to accurately report cash balances.

Cause

Solen Public School District did not prepare accurate bank reconciliations, on a timely basis.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to the bank reconciliations, management is responsible for policies and procedures for accurate and timely bank reconciliations.

Prior Recommendation

No.

Recommendation

We recommend Solen Public School District resolve its unreconciled net difference, review its current procedures, and ensure that all bank reconciliations are accurately completed on a monthly basis.

Solen Public School District's Response

See Corrective Action Plan

2019-003 SCHOOL DISTRICT FINANCIAL REPORT – MATERIAL WEAKNESS

Condition

Solen Public School District submitted a fiscal year 2019 School District Financial Report to the North Dakota Department of Public Instruction (DPI) that contained revenues, expenditures, and fund balances that did not agree with its underlying records.

Effect

Solen Public School District's financial information may not be accurately reported to DPI, which could impact its funding allocation.

Cause

Solen Public School District had turnover of accounting staff that prepare the School District Financial Report, which included errors that were not corrected prior to audit fieldwork.

Criteria

The North Dakota School District Financial Accounting and Reporting Manual, provided by DPI, states "The School District Financial Report is the primary source of financial information regarding the revenue and expenditures for K-12 education in North Dakota. It is used for many purposes, including data for inter-district tuition, public information, federal reporting, indirect costs and legislative budget and policy making decisions."

Prior Recommendation

No.

Recommendation

We recommend Solen Public School District ensure that all School District Financial Reports are complete, accurate, and balance with all underlying records that are submitted to DPI. We further recommend Solen Public School District to review the North Dakota School District Financial Accounting and Reporting Manual, to ensure accurate reporting.

Solen Public School District's Response

See Corrective Action Plan

2019-004 FUND BALANCE ADJUSTMENTS – MATERIAL WEAKNESS

Condition

During testing, it was found that Solen Public School required fund balance adjustments due to the following:

- Improper revenue and expenditure general ledger classifications
- Transfers between funds were not recorded
- Cash balance errors

Net adjustments and transfer adjustments are shown below:

Fund	Fund Balance Adjustment	Transfer Adjustments	
		In	Out
General Fund	\$ 1,576,990	\$ 11,777	\$ 1,529,195
Building Fund	(208,771)	1,528,483	3,093
Johnson O'Malley Fund	3,179	712	8,684
Student Activities Fund	6,011	-	-
Total	\$ 1,377,409	\$ 1,540,972	\$ 1,540,972

Effect

There is an increased risk of material misstatement of the Solen Public School District's financial statements whether due to fraud or error. Furthermore, Solen Public School District received an adverse opinion on the financial statements of the governmental activities, and each major fund.

Cause

Solen Public School District had turnover of accounting staff responsible for the general ledger, which included errors that were not corrected prior to audit fieldwork.

Criteria

Solen Public School District is responsible for the adjusting entries to its annual financial statements and to ensure the financial statements are reliable, accurate, free of material misstatement, and in accordance with the modified cash basis of accounting.

Prior Recommendation

Yes.

Recommendation

We recommend Solen Public School District review the fund balance adjustments and resolve issues relating to revenue and expenditure classification, transfer entries, and cash balance errors.

Solen Public School District's Response

See Corrective Action Plan

2019-005 LACK OF SEGREGATION OF DUTIES – MATERIAL WEAKNESS

Condition

Solen Public School District has one business manager responsible for the primary accounting functions. A lack of segregation of duties exists as one employee is responsible to collect monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, perform bank reconciliations, and prepare financial statements.

Effect

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of Solen Public School District's financial condition whether due to error of fraud.

Cause

Management has chosen to allocate its economic resources to other functions of the Solen Public School District.

Criteria

Proper internal control according to the COSO framework include controls surrounding the custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements. The framework dictates there should be sufficient accounting personnel so that duties of employees are properly segregated. Proper segregation of duties would provide better control over the assets of the Solen Public School District.

Prior Recommendation

Yes.

Recommendation

To mitigate the risk associated with this lack of segregation of duties, we will recommend the following:

- Expenditures, financial statements, bank reconciliations, credit memos, and payroll registers should be reviewed, analyzed, and spot-checked by a responsible official.
- Where possible, segregate the functions of approval, posting, custody of assets, and reconciliation as they relate to any amounts which impact the financial statements.

Solen Public School District's Response

See Corrective Action Plan

2019-006 FRAUD RISK ASSESSMENT – MATERIAL WEAKNESS

Condition

Solen Public School District does not currently prepare a fraud risk assessment of the entire entity.

Effect

If Solen Public School District does not prepare an adequate fraud risk assessment, there is an increased risk of fraudulent financial reporting, asset misappropriation, and corruption.

Cause

Solen Public School District may not have considered preparing a fraud risk assessment.

Criteria

Fraud risk governance is a key component of entity-wide governance and the internal control environment according to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework principles. This entity wide governance addresses the manner in which the board of directors and management meet their respective obligations to achieve the entities goals in reporting, reliance, and accountability

Prior Recommendation

No.

Recommendation

We recommend Solen Public School District prepare a fraud risk assessment in order to identify areas of concern within entity to appropriately mitigate the risk of fraudulent financial reporting, misappropriation of assets, and corruption.

Solen Public School District's Response

See Corrective Action Plan

2019-007 INADEQUATE BOARD APPROVAL OF EXPENDITURES – MATERIAL WEAKNESS

Condition

Solen Public School District did not have adequate board approval for 53 expenditures, out of 57 tested, totaling \$647,368.

Effect

Without adequate reviewing and approving of Solen Public School District expenditures, the School District exposes itself to risk of loss of assets, potential liabilities, and damage to the School District's reputation, whether due to error or fraud.

Cause

Solen Public School District does not have an adequate process to ensure all invoices are included in the listing for board approval.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to invoices to be paid by the school district, management is responsible for adequate internal controls surrounding the review process.

Prior Recommendation

Yes.

Recommendation

We recommend Solen Public School District review, and update if necessary, its current board approval process to ensure that all payments are appropriate and approved by the School Board.

Solen Public School District's Response

See Corrective Action Plan

2019-008 LACK OF SUPPORTING DOCUMENTATION – MATERIAL WEAKNESS

Condition

Solen Public School District did not obtain adequate supporting documentation for various expenditures as follows:

- 12 checks, out of 12 tested, written to a former employee totaling \$17,628
- 4 checks, out of 45 tested, written to various vendors totaling \$949

Effect

Solen Public School District may have paid for services that were not provided by employees or vendors.

Cause

Solen Public School District did not obtain adequate supporting documentation for payroll and services performed prior to payment.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to invoices to be paid by the school district, management is responsible for adequate internal controls surrounding the review process.

Prior Recommendation

Yes.

Recommendation

We recommend Solen Public School District ensure all payments, to employees and vendors, have adequate supporting documentation for proper approval and payment. We further recommend internal controls relating to the approval of invoices be reviewed and improved if necessary, to decrease the risk of loss financially whether due to error or fraud.

Solen Public School District's Response

See Corrective Action Plan

2019-009 CREDIT CARD TRANSACTION SUPPORT – MATERIAL WEAKNESS

Condition

Solen Public School District did not have adequate supporting documentation for credit card transactions that occurred during July and August of 2018, totaling \$11,297.

Effect

Solen Public School District may have paid for services and other purchases that were not appropriate.

Cause

Solen Public School District did not request adequate supporting documentation from the vendors to ensure purchases were appropriate.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to invoices to be paid by the school district, management is responsible for adequate internal controls surrounding the review process.

Prior Recommendation

No.

Recommendation

We recommend Solen Public School District obtain adequate supporting documentation for all credit card purchases. We further recommend Solen Public School District review and update, if necessary, its current procedures surrounding credit card purchases.

Solen Public School District's Response

See Corrective Action Plan

Section II - Federal Award Findings and Questioned Costs

2019-010 IMPACT AID BOARD APPROVAL OF EXPENDITURES – CFDA 84.041 – MATERIAL WEAKNESS

Condition

The Solen Public School District Board did not have proper board approval for 2 construction invoices, totaling \$266,919, out of 14 tested.

Effect

Solen Public School District may be subject to an increased risk of errors, fraudulent financial reporting, asset misappropriation, and corruption.

Cause

Solen Public School District does not have an adequate process to ensure all invoices are included in the listing for board approval.

Criteria

"Standards for Internal Control in the Federal Government" (Green Book) requires management to design, implement, and operate internal controls to achieve its objectives related to operations, reporting, and compliance. Management is to design appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system.

Questioned Costs

None.

Prior Recommendation

No.

Recommendation

We recommend Solen Public School District assess and implement a process to ensure proper board approval of all invoices.

Solen Public School District's Response

See Corrective Action Plan

2019-011 LACK OF IMPACT AID DOCUMENTED POLICIES – CFDA 84.041 – MATERIAL WEAKNESS

Condition

The Solen Public School District does not have documented policies and procedures of its internal control system pertaining to the Impact Aid program.

Effect

The lack of documented policies and procedures may increase the risk of material noncompliance with grant requirements and increase the loss of institutional knowledge in the event of turnover at the school.

Cause

The Solen Public School District has not considered the importance of documented policies and procedures pertaining to the Impact Aid Program.

Criteria

"Standards for Internal Control in the Federal Government" (Green Book) states:

- 3.09 Management develops and maintains documentation of its internal control system.
- 3.10 Effective documentation assists management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel, as well as a means to communicate that knowledge as needed to external parties, such as external auditors.

Questioned Costs

None.

Prior Recommendation

No.

Recommendation

We recommend the Solen Public School District develop and document policies and procedures of its internal control system pertaining to the Impact Aid program.

Solen Public School District's Response

See Corrective Action Plan



**SOLEN PUBLIC SCHOOL
DISTRICT #3**

Date: May 18, 2021
To: Joshua C. Gallion, ND State Auditor
FROM: Justin Fryer, Superintendent
RE: Solen Public School District – FY2019 Corrective Action Plan

Contact Person Responsible for Corrective Action Plan: Justin Fryer, Superintendent

Section I – Financial Statement Findings:

2019-001 FINANCIAL STATEMENT PREPARATION – MATERIAL WEAKNESS

Condition:

Solen Public School District currently does not prepare the financial statements, including the accompanying note disclosures, as required by the modified cash basis of accounting. Thus, management has elected to have the auditors assist in the preparation of the financial statements and note disclosures.

Corrective Action Plan:

Solen Public School District agrees with number 2019-001, "Financial Statement Preparation." Solen Public School remains resolute at this time to continue having auditors prepare the financial statements, including the accompanying note disclosures, as required by generally accepted accounting principles. The District accepts the degree of risk associated with the District not preparing its own financial statements.

Anticipated Completion Date:

Fiscal Year 2020-21

2019-002 BANK RECONCILIATIONS – MATERIAL WEAKNESS

Condition:

During testing of the June 30, 2019 bank reconciliations of Solen Public School District, there was an unreconciled net difference for each fund as follows:

Fund	Client Bank Reconciliation Balance	General Ledger Balance	Difference
General Fund	\$ (1,057,696)	\$ (731,926)	\$ (325,770)
Building Fund	510,625	924,396	(413,771)
Johnson O'Malley Fund	(10,775)	368	(11,143)
Student Activities Fund	(28,683)	(2,622)	(26,061)
Total	\$ (586,529)	\$ 190,216	\$ (776,745)

SOLE PUBLIC SCHOOL DISTRICT NO. 3
Corrective Action Plan – Continued

Corrective Action Plan:

Solen Public School District agrees with number 2019-002, “Bank Reconciliations.” The School District, through its new business manager and an independent firm (if needed), will ensure that bank reconciliations are timely and accurate. Solen Public School District will continue to provide ongoing professional development for the current business manager and if needed will work with an independent firm to safeguard that all bank reconciliations are properly completed.

Anticipated Completion Date:

Fiscal Year 2020-21

2019-003 SCHOOL DISTRICT FINANCIAL REPORT – MATERIAL WEAKNESS

Condition:

Solen Public School District submitted a fiscal year 2019 School District Financial Report to the North Dakota Department of Public Instruction (DPI) that contained revenues, expenditures, and fund balances that did not agree with its underlying records.

Corrective Action Plan:

Solen Public School District agrees with number 2019-003, “School District Financial Report.” Solen Public School District has implemented the following corrective actions to ensure that revenues, expenditures and fund balances agree with underlying records. The school business manager and the Solen Board of Education will review the ND School District Accounting and Reporting Manual to ensure that the school district financial report is correctly completed. The school district will continue to train the business manager as needed to ensure accurate reporting of district revenues, expenditures, and fund balances.

Anticipated Completion Date:

Fiscal Year 2020-21

2019-004 FUND BALANCE ADJUSTMENTS – MATERIAL WEAKNESS

Condition:

During testing, it was found that Solen Public School required fund balance adjustments due to the following:

- Improper revenue and expenditure general ledger classifications
- Transfers between funds were not recorded
- Cash balance errors

Net adjustments and transfer adjustments are shown below:

Fund	Fund Balance Adjustment	Transfer Adjustments	
		In	Out
General Fund	\$ 1,576,990	\$ 11,777	\$ 1,529,195
Building Fund	(208,771)	1,528,483	3,093
Johnson O'Malley Fund	3,179	712	8,684
Student Activities Fund	6,011	-	-
Total	\$ 1,377,409	\$ 1,540,972	\$ 1,540,972

Corrective Action Plan:

Solen Public School District agrees with number 2019-004, "Fund Balance Adjustments." Solen Public School District has implemented the following corrective actions to ensure that revenue and expenditure general ledger classifications are proper, transfers between funds are recorded, and that there are no cash balance errors.

1. The School Board views and approves all vendor and payroll checks at all monthly board meetings.
2. All checks are signed by the School District superintendent and the board president.
3. The business manager prints the checks and the superintendent codes and authorizes payments for the School District. The School District secretary checks the mail and mails out all of the weekly bills.
4. The board approves all financial reports that summarize monthly payroll and vendor expenditures at monthly meetings.
5. The superintendent and business manager review monthly bank statements.
6. The School District, through its business manager and an independent firm, ensure that bank reconciliations are timely and accurate.
7. The business manager is no longer authorized to sign any checks.
8. The daily cash, game gate and concession receipts are signed off by two different individuals who work the game ticket office and concession area.
9. The board has adopted a policy directing that the superintendent maintains a system of internal controls to identify potential risks, manage potential risks, and deter and monitor fraud and financial impropriety in the School District. Internal controls shall be subject to board review.
10. The board has adopted policies regarding and relating to purchasing, transfer of School District monies and records retention.
11. The board has adopted policies relating to internal controls for the handling of School District monies.
12. The board has adopted a detailed and comprehensive job description for the School District business manager.

Anticipated Completion Date:

Fiscal Year 2020-21

2019-005 LACK OF SEGREGATION OF DUTIES – MATERIAL WEAKNESS

Condition:

Solen Public School District has one business manager responsible for the primary accounting functions. A lack of segregation of duties exists as one employee is responsible to collect monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, perform bank reconciliations, and prepare financial statements.

Corrective Action Plan:

Solen Public School District agrees with number 2019-005, “Lack of Segregation of Duties.” Solen Public School District has implemented the following corrective actions to ensure a segregation of duties exists.

1. The School Board views and approves all vendor and payroll checks at all monthly board meetings.
2. All checks are signed by the School District superintendent and the board president.
3. The business manager prints the checks and the superintendent codes and authorizes payments for the School District. The School District secretary checks the mail and mails out all of the weekly bills.
4. The board approves all financial reports that summarize monthly payroll and vendor expenditures at monthly meetings.
5. The business manager is no longer authorized to sign any checks.
6. The daily cash, game gate and concession receipts are signed off by two different individuals who work the game ticket office and concession area.
7. The board has adopted policies relating to internal controls for the handling of School District monies.

Anticipated Completion Date:

Fiscal Year 2020-21

2019-006 FRAUD RISK ASSESSMENT – MATERIAL WEAKNESS

Condition:

Solen Public School District does not currently prepare a fraud risk assessment of the entire entity.

Corrective Action Plan:

Solen Public School District agrees with number 2019-006, “Fraud risk assessment”. The District will form a team of administrators and board members to prepare a fraud risk assessment tool. The fraud risk assessment would include development of anti-fraud controls to establish consistency to identify potential fraud risks. A fraud risk assessment will be held once every six months.

Anticipated Completion Date:

Fiscal Year 2020-21

2019-007 INADEQUATE BOARD APPROVAL OF EXPENDITURES – MATERIAL WEAKNESS

Condition:

Solen Public School District did not have adequate board approval for 53 expenditures, out of 57 tested, totaling \$647,368.

Corrective Action Plan:

Solen Public School District agrees with number 2019-007, “Inadequate Board Approval of Expenditures.” Solen School District will review its approval process to ensure that all payments are appropriate and approved by the School Board. Currently, the Solen Board of Education approves all monthly expenditures. These expenditures are provided in a check report each month.

Anticipated Completion Date:

Fiscal Year 2020-21

2019-008 LACK OF SUPPORTING DOCUMENTATION – MATERIAL WEAKNESS

Condition:

Solen Public School District did not obtain adequate supporting documentation for various expenditures as follows:

- 12 checks, out of 12 tested, written to a former employee totaling \$17,628
- 4 checks, out of 45 tested, written to various vendors totaling \$949

Corrective Action Plan:

Solen Public School District agrees with number 2019-008, "Lack of Supporting Documentation." Solen Public School District will maintain appropriate supporting documentation/invoices for all expenditures.

Anticipated Completion Date:

Fiscal Year 2020-21

2019-009 CREDIT CARD TRANSACTION SUPPORT – MATERIAL WEAKNESS

Condition:

Solen Public School District did not have adequate supporting documentation for credit card transactions that occurred during July and August of 2018, totaling \$11,297.

Corrective Action Plan:

Solen Public School District agrees with number 2019-009, "Credit Card Transaction Support." Solen Public School District will maintain appropriate supporting documentation/receipts for all credit card transactions. Credit Card Transactions and support will be reviewed and approved by the Solen Board of Education on the monthly check report at regularly scheduled board meetings.

Anticipated Completion Date:

Fiscal Year 2020-21

Section II – Federal Awards Findings and Questioned Costs:

2019-010 IMPACT AID BOARD APPROVAL OF EXPENDITURES – CFDA 84.041 – MATERIAL WEAKNESS

Condition:

The Solen Public School District Board did not have proper board approval for 2 construction invoices, totaling \$266,919, out of 14 tested.

Corrective Action Plan:

Solen Public School District agrees with number 2019-010 'Impact Aid Board Approval of Expenditures'. The District will review its approval process to ensure that all payments are appropriate and approved by the School Board. Solen School District will maintain accurate school board meeting minutes to support board approval of invoices. Currently, the Solen Board of Education approves all monthly expenditures. These expenditures are provided in a check report each month.

Anticipated Completion Date:

Fiscal Year 2020-21

2019-011 LACK OF IMPACT AID DOCUMENTED POLICIES – CFDA 84.041 – MATERIAL WEAKNESS

Condition:

The Solen Public School District does not have documented policies and procedures of its internal control system pertaining to the Impact Aid program.

Corrective Action Plan:

Solen Public School District agrees with number 2019-011 'Impact Aid Board Approval of Expenditures'. Solen School District is currently updating all district policies. Solen Public School District will adopt policies for the Impact Aid program to ensure adequate internal controls.

Anticipated Completion Date:

Fiscal Year 2020-21



SOLEN PUBLIC SCHOOL DISTRICT #3

Date: November 23, 2020
To: Joshua C. Gallion, ND State Auditor
FROM: Justin Fryer, Superintendent
RE: Solen Public School District – FY2019 Schedule of Prior Year Findings

2018-001 MATERIAL WEAKNESS – FINANCIAL STATEMENTS PREPARED BY AUDITOR

Condition:

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. In additions, adjusting journal entries were proposed in order to bring the financial statements into compliance with the cash basis of accounting

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.

Current Status

The school district does review financial statements at regularly scheduled board meetings and as needed at finance committee meetings. The district also had held discussions with the auditor to help ensure that financial statements are properly prepared and accurate.

2018-002 MATERIAL WEAKNESS – SEGREGATION OF DUTIES

Condition:

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

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. –
- Monthly bank statements should be reviewed by a person independent of the check process. –
- Bank reconciliations should be reviewed and approved by someone separate from bank reconciliation responsibilities. –
- 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.

Current Status:

The school district has implemented all of the following recommendations; however, the school district is still working to ensure that our business manager is properly trained on preparing bank reconciliations for approval.

2018-003 MATERIAL WEAKNESS – PAYROLL TAXES

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, 2014 through June 30, 2018. Furthermore, the District did not file the required reports related to payroll taxes.

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.

Current Status:

The school district has paid \$2,026,468.84 in back taxes since it found out about this significant problem. The district found out it owed more back taxes this summer. Currently the district owes the following amounts:

FY 2010 - \$13,562.24
FY 2011 - \$257,775.98
FY 2012 - \$218,348.35
FY 2013 - \$9,775.44
FY 2014 - \$493,426.15

The district anticipates having FY 2014 paid in full by July 30, 2021. The school district will continue to make back payments to the IRS as quickly as possible.

2018-004 MATERIAL WEAKNESS – ACCOUNTING RECORDS

Condition:

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

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.

Current Status:

The district has paid for our new business manager to be certified by the state of ND. She is currently in a two-year business manager certification program. The district has adopted a formal records retention policy and has adopted other record polices recommended by the United States Department of Education.

2018-005 MATERIAL WEAKNESS– PROCUREMENT

Condition:

The District purchased basketball hoops for \$26,000 and a school bus for \$49,000, however the District did not notify the public of bids nor did the District obtain bids for these purchases.

Recommendation:

We recommend the District formally adopt a procurement policy that is in compliance with Uniform Guidance and North Dakota Century Code requirements. In addition, the District should provide training to staff to ensure the policy is understood, monitored and followed.

Current Status:

Project bids were completed; however, the appropriate documentation was not maintained. The US Department of Education did not agree with this finding. This information has been provided to your agency. The district supplied all requested policies to your agency.

2018-006 SIGNIFICANT DEFICIENCY – FRAUD AND ABUSE

Condition:

During the period of audit, the former business manager had the ability to initiate payroll and non-payroll checks, reconcile the checkbook, enter accounting transactions and was one of the authorized check signors. In addition, the former business manager had a credit card that was not reviewed by another person.

Recommendation:

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. –
- Monthly bank statements should be reviewed by a person independent of the check process. –
- 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.

Current Status:

The previous business manager was terminated on August 24, 2018. The district has fully cooperated with the FBI and IRS in the ongoing investigation. The district expects to have results of the investigation this year, however, the COVID-19 pandemic has delayed the investigation.

2018-007 SIGNIFICANT DEFICIENCY – UNTIMELY FILING OF 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.

Recommendation:

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

Current Status:

The district will be current with all audits once this audit is completed. COVID-19 has delayed the audit process for the district.

2018-008 SIGNIFICANT DEFICIENCY – EXPENDITURES

Condition:

Of forty expenditures tested, ten expenditures tested were for non-payroll expenditures. Of the ten non-payroll expenditures, there was no supporting documentation, such as an invoice or employee reimbursement request for three expenditures totaling \$2,987.21 and nine of the non-payroll expenditures did not have proper approval of payment for the expenditure.

Corrective Action Plan:

We recommend that the District implement policies and procedures for processing all expenditures which includes federal and state requirements, as well as documentation retention guidelines.

Current Status:

The district has implemented a records retention policies to ensure that appropriate documentation is being retained, however, the district is still learning how long individual records should be kept.

STATE AUDITOR
Joshua C. Gallion



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GOVERNANCE COMMUNICATION

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Solen Public School District No. 3 as of June 30, 2019, which collectively comprise the Solen Public School District No. 3's basis financial statements, and have issued our report thereon dated June 2, 2021. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in The United States of America, Government Auditing Standards and by the Uniform Guidance

As stated in our engagement letter dated March 6, 2020, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

In planning and performing our audit, we considered Solen Public School District No. 3's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on internal control over financial reporting.

As part of obtaining reasonable assurance about whether Solen Public School District No. 3's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Significant Accounting Policies/Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Solen Public School District No. 3 are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended June 30, 2019. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

SOLEN PUBLIC SCHOOL DISTRICT NO. 3
Governance Communication – Continued

Accounting estimates are an integral part of the financial statements presented by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is useful lives of capital assets.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. Management has corrected all such misstatements. The schedules list all misstatements detected as a result of audit procedures that were corrected by management.

	<u>General Fund</u>	<u>Building Fund</u>	<u>JOM Fund</u>	<u>Agency Fund</u>	<u>Total</u>
Fund Level Adjustments					
<u>To Record PPA to Correct Beginning</u>					
<u>Fund Balance</u>					
Fund Balance	13,404	-	-	-	13,404
Fund Balance	-	-	-	-	-
			13,404	-	13,404
<u>To Record Commodities</u>					
Commodity Expenditures	7,031	-	-	-	7,031
Commodity Revenues	-	7,031	-	-	7,031
<u>To Reclass Revenues</u>					
Revenue from State Sources	1,053	-	-	-	1,053
Revenue from Federal Sources	-	1,053	-	-	1,053
<u>To Record Client Fund Transfers</u>					
Transfers Out	1,529,195	3,093	8,684	-	1,540,972
Fund Balance	11,777	1,528,483	712	-	1,540,972
Transfers In	-	11,777	-	-	1,540,972
Fund Balance	-	1,529,195	3,093	-	1,540,972
<u>To Correct Client Cash Amounts</u>					
Cash	1,576,990	-	3,179	6,011	1,586,180
Fund Balance	-	208,771	-	-	208,771
Cash	-	-	-	-	208,771
Fund Balance	-	1,576,990	-	6,011	1,586,180
<u>To Balance Client Financials</u>					
Fund Balance	988,046	10,924	-	-	998,970
Expenditures	-	-	16,693	2,077	18,770
Revenues	-	988,046	10,924	-	998,970
Fund Balance	-	-	-	2,077	18,770
<u>To Balance Audited Financials</u>					
Fund Balance	-	-	7,972	-	7,972
Expenditures	1,127	6,845	-	-	7,972
Revenues	-	-	-	-	7,972
Fund Balance	-	1,127	6,845	-	7,972
<u>To Eliminate Payables to Reflect</u>					
<u>Modified Cash Basis</u>					
Expenditures	1,963,534	-	-	-	1,963,534
Accounts Payable	30,093	-	-	-	30,093
Salaries Payable	-	1,993,627	-	-	1,993,627
<u>To Remove Expenditures from General</u>					
<u>Fund and Record in Building Fund</u>					
Expenditures	-	1,518,544	-	-	1,518,544
Fund Balance	1,518,544	-	-	-	1,518,544
Fund Balance	-	-	-	-	1,518,544
Expenditures	-	1,518,544	-	-	1,518,544
Government Wide Statements					
<u>To Record PPA for Capital Assets</u>					
<u>to Reflect Modified Cash Basis</u>					
Net Capital Assets	-	-	-	-	627,385
Net Position	-	-	-	-	627,385

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, or reporting matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 2, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of School Commissioners and management of Solen Public School District No. 3, and is not intended to be, and should not be, used for any other purpose. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Thank you and the employees of Solen Public School District No. 3 for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve Solen Public School District No. 3.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
June 2, 2021



Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

NORTH DAKOTA STATE AUDITOR'S OFFICE

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