



Financial Statements
June 30, 2014

Fort Yates Public School District No. 4

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

School Board
Fort Yates Public School District No. 4
Fort Yates, North Dakota

Report on the Financial Statements

We have audited the accompanying statement of net position – modified cash basis and balance sheet – governmental funds – modified cash basis of the governmental activities and each major fund of the Fort Yates Public School District No. 4, Fort Yates, North Dakota, as of June 30, 2014, and were engaged to audit the related statement of activities – modified cash basis and statement of revenues, expenditures and changes in fund balances – governmental funds – modified cash basis for the year then ended, and the related notes to the financial statements.

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 audit opinions on the statement of net position – modified cash basis and balance sheet – governmental funds – modified cash basis.

Basis for Disclaimer of Opinion on the Statement of Activities – Modified Cash Basis and Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Modified Cash Basis

Since the audit opinion on the School District's financial statements as of and for the year ended June 30, 2013, was a disclaimer of opinion due to scope limitations in auditing the financial statements, we have not obtained sufficient appropriate audit evidence about the classifications and amounts comprising the statement of net position – modified cash basis and balance sheet – governmental funds – modified cash basis at June 30, 2013. The classifications and amounts comprising the statement of net position – modified cash basis and balance sheet – governmental funds – modified cash basis at June 30, 2013, materially affect the statement of activities – modified cash basis and statement of revenues, expenditures and changes in fund balances – governmental funds – modified cash basis for the year ended June 30, 2014, and the consistency of application of accounting principles between 2014 and 2013.

Disclaimer of Opinion on the Statement of Activities – Modified Cash Basis and Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Modified Cash Basis

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statement of activities – modified cash basis and statement of revenues, expenditures and changes in fund balances – governmental funds – modified cash basis for the year ended June 30, 2014, or on the consistency of application of accounting principles with the preceding year. Accordingly, we do not express an opinion on the statement of activities – modified cash basis and statement of revenues, expenditures and changes in fund balances – governmental funds – modified cash basis for the year ended June 30, 2014, or on the consistency of application of accounting principles with the preceding year.

Basis for Qualified Opinion on the Statement of Net Position – Modified Cash Basis

We were unable to test net capital assets at June 30, 2014 (stated \$10,061,739), due to the School District not maintaining capital asset records to support the balances reported. We were unable to obtain sufficient appropriate audit evidence about the capital assets through our auditing procedures.

Qualified Opinion on the Statement of Net Position – Modified Cash Basis

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the statement of net position – modified cash basis referred to above presents fairly, in all material respects, the financial position of the governmental activities of Fort Yates Public School District No. 4, Fort Yates, North Dakota, as of June 30, 2014, in accordance with the modified cash basis of accounting described in Note 1.

Unmodified Opinions on the Balance Sheet – Governmental Funds – Modified Cash Basis

In our opinion, the balance sheet – governmental funds – modified cash basis referred to above presents fairly, in all material respects, the financial position of each major fund of Fort Yates Public School District No. 4, Fort Yates, North Dakota, as of June 30, 2014, in accordance with the modified cash basis of accounting described in Note 1.

Correction of Errors

As discussed in Note 10 to the financial statements, there were errors in amounts previously reported as of July 1, 2013. Accordingly, amounts reported for fund balance and net position as of July 1, 2013 have been restated to correct the errors. Our opinion is modified with respect to the matters as discussed in the Basis for Disclaimer of Opinion and Disclaimer of Opinion paragraphs.

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 basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Disclaimer of Opinion on Other Information

We were engaged to audit the financial statements that collectively comprise the School District's financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, it is inappropriate to and we do not express an opinion on the Schedule of Expenditures of Federal Awards.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 3, 2014 on our consideration of Fort Yates Public School District No. 4, Fort Yates, North Dakota'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fort Yates Public School District No. 4, Fort Yates, North Dakota's internal control over financial reporting and compliance.



Bismarck, North Dakota
December 3, 2014

Fort Yates Public School District No. 4
Statement of Net Position – Modified Cash Basis
June 30, 2014

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 55,514
Restricted cash and investments	1,121,258
Capital assets not being depreciated	
Land	16,800
Capital assets (net of accumulated depreciation)	
Buildings	<u>10,044,939</u>
Total capital assets	<u>10,061,739</u>
Total assets	<u><u>\$ 11,238,511</u></u>
Liabilities	
Long-term liabilities	
Due within one year	
Lease revenue bonds payable	\$ 305,000
Due after one year	
Lease revenue bonds payable	<u>4,585,000</u>
Total liabilities	<u><u>\$ 4,890,000</u></u>
Net Position	
Net investment in capital assets	\$ 6,292,997
Unrestricted	<u>55,514</u>
Total net position	<u><u>\$ 6,348,511</u></u>

Fort Yates Public School District No. 4
Statement of Activities – Modified Cash Basis
Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Regular programs	\$ 1,082,005	\$ 51,622	\$ -	\$ (1,030,383)
Federal programs	1,039,597	-	621,622	(417,975)
Special education	36,085	-	266,677	230,592
District wide services	178,123	-	-	(178,123)
Administration	343,011	-	-	(343,011)
Operations and maintenance	361,792	-	-	(361,792)
Transportation	10,252	-	-	(10,252)
Student activities	60,466	-	-	(60,466)
Food service	280,903	-	81,866	(199,037)
Interest	246,057	-	-	(246,057)
Unallocated depreciation	270,701	-	-	(270,701)
Total governmental activities	<u>\$ 3,908,992</u>	<u>\$ 51,622</u>	<u>\$ 970,165</u>	<u>(2,887,205)</u>
General Revenues				
Taxes				
Property taxes; levied for general purposes				63,800
Federal aid-not restricted to specific program				1,061,064
State aid-not restricted to specific program				1,871,448
Interest				24,214
Miscellaneous revenue				1,524
Note forgiveness				1,350,000
Total general revenues				<u>4,372,050</u>
Change in net position				<u>1,484,845</u>
Net position - July 1, as restated (Note 10)				<u>4,863,666</u>
Net position - June 30				<u>\$ 6,348,511</u>

Fort Yates Public School District No. 4
 Balance Sheet – Governmental Funds – Modified Cash Basis
 June 30, 2014

	Major Funds		Total Governmental Funds
	General	Building Authority	
Assets			
Cash and investments	\$ 55,514	\$ -	\$ 55,514
Restricted cash and investments	-	1,121,258	1,121,258
Total assets	\$ 55,514	\$ 1,121,258	\$ 1,176,772
Fund Balances			
Restricted for Debt service	\$ -	\$ 1,121,258	\$ 1,121,258
Unassigned	55,514	-	55,514
Total fund balances	\$ 55,514	\$ 1,121,258	\$ 1,176,772

Fort Yates Public School District No. 4
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – Modified Cash Basis
 June 30, 2014

Total fund balances for governmental funds		\$ 1,176,772
Total net position reported for government activities in the statement of net position are different because		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds		
Cost of capital assets	\$ 13,847,168	
Less accumulated depreciation	<u>(3,785,429)</u>	
Net capital assets		10,061,739
Long-term liabilities applicable to the School District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term are reported in the statement of net position. Balances at June 30, 2014 are:		
Lease revenue bonds payable		<u>(4,890,000)</u>
Total net position of governmental activities		<u>\$ 6,348,511</u>

Fort Yates Public School District No. 4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Modified Cash
Basis
Year Ended June 30, 2014

	Major Funds		Total Governmental Funds
	General	Building Authority	
Revenues			
Local sources	\$ 158,244	\$ -	\$ 158,244
State sources	2,102,069	-	2,102,069
Federal sources	1,759,369	-	1,759,369
Other revenue	-	24,155	24,155
Total revenues	<u>4,019,682</u>	<u>24,155</u>	<u>4,043,837</u>
Expenditures			
Current			
Regular programs	1,082,005	-	1,082,005
Federal programs	1,039,597	-	1,039,597
Special education	36,085	-	36,085
District wide services	178,123	-	178,123
Administration	343,011	-	343,011
Operations and maintenance	361,792	-	361,792
Transportation	10,252	-	10,252
Student activities	60,466	-	60,466
Food service	280,903	-	280,903
Debt service			
Principal	-	295,000	295,000
Interest	-	246,057	246,057
Total expenditures	<u>3,392,234</u>	<u>541,057</u>	<u>3,933,291</u>
Excess (Deficiency) of Revenues over Expenditures	<u>627,448</u>	<u>(516,902)</u>	<u>110,546</u>
Other Financing Sources (Uses)			
Note forgiveness	1,350,000	-	1,350,000
Transfers in	-	504,531	504,531
Transfers out	<u>(504,531)</u>	<u>-</u>	<u>(504,531)</u>
Total Other Financing Sources and Uses	<u>845,469</u>	<u>504,531</u>	<u>1,350,000</u>
Net Change in Fund Balances	<u>1,472,917</u>	<u>(12,371)</u>	<u>1,460,546</u>
Fund Balance - July 1, as restated (Note 10)	<u>(1,417,403)</u>	<u>1,133,629</u>	<u>(283,774)</u>
Fund Balance - June 30	<u>\$ 55,514</u>	<u>\$ 1,121,258</u>	<u>\$ 1,176,772</u>

Fort Yates Public School District No. 4

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities – Modified Cash Basis
Year Ended June 30, 2014

Net change in fund balances - total governmental funds	\$ 1,460,546
The change in net position reported for governmental activities in the statement of activities is different because	
<p style="margin-left: 40px;">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 capital outlays exceeded depreciation in the current year.</p>	
Current year depreciation expense	(270,701)
<p style="margin-left: 40px;">Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>	
Principal payments	<u>295,000</u>
Change in net position of governmental activities	<u><u>\$ 1,484,845</u></u>

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Fort Yates Public School District No. 4, Fort Yates, North Dakota, have been prepared using an other comprehensive basis of accounting as discussed below. 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 Fort Yates Public School District No. 4. The School District has considered all potential component units for which the School District is financially accountable and other organizations for which the nature and significance of their relationships with the School District are 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 Fort Yates Public School District No. 4 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 Fort Yates Public School District No. 4.

The School District's basic financial statements include a blended component unit. The blended component unit, although a legally separate entity is, in substance, part of the School District's operations and so data from this unit is combined with data of the primary government. The component unit is included in the School District's reporting entity because of the significance of its operational or financial relationship with the School District.

Blended Component Unit

Fort Yates Public School District Building Authority (Building Authority) – The Building Authority was formed to obtain financial resources to be used for the issuance of bonds, construction, and repayment of debt relating to the Fort Yates Public School District middle school construction project. The Building Authority and the School District have a financial and operational relationship which requires that the Building Authority's financial statements be blended into the School District's financial statements. The Building Authority is operated by the School District and the School Board serves as the governing body for the Building Authority. The Building Authority is reported as a debt service fund.

Basis of Presentation

Government-wide statements – The statement of net position and the statement of activities display information about the primary government, Fort Yates Public School District No. 4. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

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

Fund financial statements – The fund financial statements provide information about the School District's funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental funds, displayed in a separate column.

The School District reports the following major governmental funds.

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

Building Authority Fund – This is used to account for financial resources to be used for the issuance of bonds, construction, and repayment of debt relating to the middle school construction project.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide financial statements – The government-wide financial statements are reported using the modified cash basis of accounting. Under this method, revenues are 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. Under the modified cash basis of accounting, assets and liabilities generated from a cash inflow or outflow that will provide a future benefit or obligation over multiple accounting periods (i.e. capital assets and long-term debt) are recognized in the financial statements.

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, revenues are 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. 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.

Under the terms of grant agreements, the School District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the School District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Fund Balance Classification Policies and Procedures

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the School District classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority (School Board) and does not lapse at year-end. To be reported as committed, amounts cannot be used for any other purpose unless the School Board takes the same highest level of action to remove or change the constraint.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Business Manager.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The School District uses *restricted /committed* amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use *committed, then assigned, and lastly unassigned amounts* of unrestricted fund balance when expenditures are made.

The School District does not have a formal minimum fund balance policy.

Budgets

Based upon available financial information and requests by the school board, the business manager prepares the School District budget. The budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

School district taxes must be levied by the governing board on or before the fifteenth day of August. The taxes levied must be certified to the county auditor by August 25. The governing body of the School District may amend its tax levy and budget for the current fiscal year on or before the tenth day of October of each year, but the certification must be filed with the county auditor by October 10. The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.

Cash and Investments

Cash includes cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant changes in value because of interest rates. This includes investments with original maturity of three months or less.

The School District may invest idle funds as authorized in North Dakota Statutes, as follows:

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

Investments are recorded at cost under the other comprehensive basis of accounting used by the School District.

Restricted Cash and Investments

Certain debt proceeds, as well as certain resources set aside for their repayment, are classified as restricted assets because their use is limited by applicable bond covenants and they are maintained in separate bank 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 District as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. 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:

Buildings	15-50 years
Furniture and equipment	8-15 years
Vehicles	10 years

Long-Term Obligations

In the government-wide financial statements, long-term obligations originating from a cash inflow that will require a future obligation over multiple accounting periods are reported as liabilities in the governmental activities statement of net position.

In the governmental fund financial statements, debt proceeds are reported as other financing sources while payments of principal and interest are reported as expenditures when they become due.

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. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

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

Estimates

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

Property Tax Revenues

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Any material tax collections are distributed after the end of each month. Property taxes are levied as of January 1.

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

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the discount on the property taxes. The School District records property tax revenues when payments are remitted to the School District from the County Treasurer.

Note 2 - Cash and Investments

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

Deposits must either be deposited with the Bank of North Dakota or in another 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 June 30, 2014, the School District's carrying amount of deposits was \$55,514 and the bank balance was \$308,764. Of the bank balance, \$259,682 was covered by federal depository insurance and the remainder was covered by collateral with securities held by the pledging financial institution's agent in the government's name.

As of June 30, 2014, the School District had the following investments.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Money market	\$ 569,758	\$ 569,758	\$ -	\$ -	\$ -
Private debt obligations	551,500	-	-	-	551,500
	<u>\$ 1,121,258</u>	<u>\$ 569,758</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 551,500</u>

Interest Rate Risk

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

Credit Risk

The School District may invest idle funds as authorized in North Dakota Statutes, as follows:

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

No ratings were available for the School District's investments.

Concentration of Credit Risk

The School District does not have a limit on the amount the School District may invest in any one issuer. At June 30, 2014, all of the School District's investments were in a single issuer.

Note 3 - Capital Assets

The following is a summary of changes in capital assets for the year ended June 30, 2014:

<u>Governmental Activities</u>	<u>Balance July 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30</u>
Capital assets not being depreciated				
Land	\$ 16,800	\$ -	\$ -	\$ 16,800
Total capital assets not being depreciated	<u>16,800</u>	<u>-</u>	<u>-</u>	<u>16,800</u>
Capital assets, being depreciated				
Buildings	13,508,693	-	-	13,508,693
Furniture and equipment	51,205	-	-	51,205
Vehicles	270,470	-	-	270,470
Total capital assets, being depreciated	<u>13,830,368</u>	<u>-</u>	<u>-</u>	<u>13,830,368</u>
Less accumulated depreciation for				
Buildings	3,193,053	270,701	-	3,463,754
Furniture and equipment	51,205	-	-	51,205
Vehicles	270,470	-	-	270,470
Total accumulated depreciation	<u>3,514,728</u>	<u>270,701</u>	<u>-</u>	<u>3,785,429</u>
Total capital assets, being depreciated, net	<u>10,315,640</u>	<u>(270,701)</u>	<u>-</u>	<u>10,044,939</u>
Governmental activities capital assets, net	<u>\$ 10,332,440</u>	<u>\$ (270,701)</u>	<u>\$ -</u>	<u>\$ 10,061,739</u>

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

<u>Governmental Activities</u>	
Unallocated	<u>\$ 270,701</u>
Total depreciation expense - governmental activities	<u>\$ 270,701</u>

Note 4 - Long-Term Liabilities

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2014:

	<u>Balance July 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30</u>	<u>Due Within One Year</u>
Lease revenue bonds	\$ 5,185,000	\$ -	\$ 295,000	\$ 4,890,000	\$ 305,000
Note payable	1,350,000	-	1,350,000	-	-
Total	<u>\$ 6,535,000</u>	<u>\$ -</u>	<u>\$ 1,645,000</u>	<u>\$ 4,890,000</u>	<u>\$ 305,000</u>

Lease revenue bonds consist of the following at June 30, 2014:

\$6,950,000 Lease Revenue Bonds, Series 2005, due in annual installments of \$275,183 to \$1,081,375 through June 2025; interest at 5%; liquidated out of the building authority fund	<u>\$ 4,890,000</u>
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Maturities on the lease revenue bonds at June 30, 2014 are as follows:

<u>Year Ending June 30</u>	<u>Lease Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 305,000	\$ 233,491
2016	320,000	220,130
2017	335,000	204,875
2018	350,000	187,750
2019	370,000	169,750
2020-2024	2,155,000	543,625
2025	1,055,000	26,375
Total	<u>\$ 4,890,000</u>	<u>\$ 1,585,996</u>

The lease revenue bonds were issued to finance the construction of a middle school. The bonds are payable primarily from federal Impact Aid funds entitled to be received by the School District each year from the U.S. Department of Education and are payable through June 2025. Annual principal and interest payments on the bonds are expected to require less than the net revenues. The total principal and interest remaining to be paid on the bonds is \$6,475,996 at June 30, 2014. The total future revenues pledged are equal to the remaining principal and interest requirements of the bonds. Principal and interest paid for the year ended June 30, 2014 was \$541,057. Total net revenues for the year ended June 30, 2014 were \$1,061,063.

The note payable was related to funds loaned to the School District from the Standing Rock Community Grant School (Grant School) to assist in the operations of the School District (Note 8). The \$1,350,000 balance of the note payable was forgiven by the Grant School during the year ended June 30, 2014 and no outstanding balance remains on the note payable at June 30, 2014.

Note 5 - Transfers

The following is a reconciliation between transfers in and transfers out as reported for the year ended June 30, 2014:

Fund	Transfers In	Transfers Out
General fund	\$ -	\$ 504,531
Building authority	504,531	-
Total	\$ 504,531	\$ 504,531

Transfers were made to fund the annual debt service requirements in the Building Authority fund.

Note 6 - Risk Management

The Fort Yates Public School District No. 4 is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986 state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,500 political subdivisions. The Fort Yates Public School District No 4 pays an annual premium to NDIRF for its general liability, automobile and inland marine insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile and \$3,060 for inland marine coverage.

The Fort Yates Public School District No. 4 also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The School District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12 month period. The State Bonding Fund currently provides political subdivision with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The School District has workers compensation with the North Dakota Workforce Safety and Insurance (WSI). WSI is a state insurance fund and a "no fault" insurance system, covering employers and employees. WSI is financed by premiums assessed to employers. The premiums are primarily for the payment of claims to employees injured in the course of employment.

Note 7 - Pension Plans

The Fort Yates Public School District No. 4 contributes to the North Dakota Teacher's Fund for Retirement (TFFR); a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. TFFR provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with chapter 15-39.1 of the North Dakota Century Code. TFFR issues a publicly available financial report that includes financial statements and required supplementary information for TFFR. That report may be obtained by writing to Teacher's Fund for Retirement, 1930 Burnt Boat Drive, PO Box 7100, Bismarck, ND 58507-7100.

Plan members are required to contribute 9.75% of their annual covered salary and the School District is required to contribute 10.75% of the teacher's salary. The contribution requirements of plan members and the School District are established and may be amended by the State legislature. The School District's contributions to TFFR for the fiscal year ending June 30, 2014 were \$110,917.

Note 8 - Joint Powers Agreement

The School District entered into a joint powers agreement with the Standing Rock Community Grant School (Grant School) to combine the educational, social, cultural and physical opportunities of all K-12 students attending the School District and the Grant School. It is also intended that no funding or revenue sources currently received by any member shall be reduced, placed in jeopardy or placed at risk. Although administrative and financial functions remained separate, the two schools combined their instructional resources. As the agreement does not specifically address how revenue and expenses will be allocated between the schools, the board of directors and management of the schools have negotiated a process to apply such allocations. Certain expenses of each school are paid separately, and certain expenses are shared 81 percent (the Grant School) and 19 percent (the School District) based on a census of the number of students attending each school at the time the joint powers agreement was entered into. A copy of the Joint Powers Agreement is on file at the School District.

Note 9 - Commitments and Contingencies

The School District receives federal and state grants to fund the operations of the School. These grants are subject to audits by the granting agency and to compliance audits under OMB Circular A-133. Any liability of reimbursement that may result from these audits cannot be reasonably determined at this time.

Note 10 - Restatements

Prior to July 1, 2013, the School District did not maintain adequate accounting records which resulted in a disclaimer of opinion over amounts reported as of and for the year ended June 30, 2013. During the year ended June 30, 2014, the School District corrected its accounting records to reflect the 2014 activity and balances. The corrections resulted in restatements to fund balance and net position at July 1, 2013 for errors in amounts previously reported, although the School District was unable to specifically identify the errors in the amounts previously reported. The adjustments to beginning fund balance and net position are as follows:

	General Fund	Building Authority	Governmental Activities
Fund balance/net position - July 1, as previously reported	\$ (1,389,065)	\$ 21,026	\$ 3,779,401
Restatement due to correction of errors	(28,338)	1,112,603	1,084,265
Fund balance/net position - July 1, as restated	\$ (1,417,403)	\$ 1,133,629	\$ 4,863,666



Supplementary Information
June 30, 2014

Fort Yates Public School District

Fort Yates Public School District No. 4
 Schedule of Expenditures of Federal Award
 Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
<u>Passed through State Department of Public Instruction</u>		
Fresh Fruit and Vegetable Program	10.582	\$ 5,597
Child Nutrition Cluster		
School Breakfast Program	10.553	17,351
National School Lunch Program	10.555	55,351
Summer Food Service Program for Children	10.559	5,563
Total Child Nutrition Cluster		78,265
Total Department of Agriculture		83,862
U.S. Department of Interior		
<u>Passed through Standing Rock Sioux Tribe</u>		
Indian Education Assistance to Schools - Johnson O'Malley	15.130	5,034
Total Department of Interior		5,034
U.S. Department of Education		
<u>Passed through the State Department of Public Instruction</u>		
Title I - Grants to Local Education Agencies	84.010	407,772
English Language Acquisition State Grants	84.365A	3,772
Title IIA - Improving Teacher Quality State Grants	84.367A	130,878
<u>Direct Assistance</u>		
Impact Aid	84.041	1,061,063
Indian Education - Grants to Local Educational Agencies	84.060	40,746
Total Department of Education		1,644,231
Total Expenditures of Federal Awards		\$ 1,733,127

Note A – Basis of Presentation

The Schedule of Expenditures of Federal Awards represents amounts expended from federal programs during the year ended June 30, 2014 based on the modified cash basis of accounting.

Note B – Commodities Received

Nonmonetary assistance is reported in the Schedule of Expenditures of Federal Awards at the fair market value of the commodities received and disbursed. During the year ended June 30, 2014, the School District received food commodities totaling \$6,740.



CPAs & BUSINESS ADVISORS

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and other Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

School Board
Fort Yates Public School District No. 4
Fort Yates, 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 and each major fund of Fort Yates Public School District No. 4, Fort Yates, North Dakota as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Fort Yates Public School District No. 4, Fort Yates, North Dakota's basic financial statements, and have issued our report thereon dated December 3, 2014. Our report included a disclaimer of opinion on the statement of activities – modified cash basis and on the statement of revenues, expenditures and changes in fund balances – governmental funds – modified cash basis and a qualified opinion on the statement of net position – modified cash basis.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District'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 the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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

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 School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-A, 2014-B, 2014-C, and 2014-D to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District'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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2013-D.

Responses to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

Eide Sully LLP

Bismarck, North Dakota
December 3, 2014



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by OMB Circular A-133

School Board
Fort Yates Public School District No. 4
Fort Yates, North Dakota

Report on Compliance for Each Major Federal Program

We have audited Fort Yates Public School District No. 4, Fort Yates, North Dakota's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Fort Yates Public School District No. 4, Fort Yates, North Dakota's major federal programs for the year ended June 30, 2014. Fort Yates Public School District No. 4, Fort Yates, North Dakota's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District'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 the School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Fort Yates Public School District No. 4, Fort Yates, North Dakota's 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, 2014.

Report on Internal Control over Compliance

Management of Fort Yates Public School District 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 the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District'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 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 2014-001 and 2014-002 to be material weaknesses.

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

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

Eide Sully LLP

Bismarck, North Dakota
December 3, 2014

2013-001 Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Lack of Segregation of Duties – Material Weakness

2012-2013 Award Year – Title I – Grants to Local Education Agencies (CFDA 84.010) and Impact Aid (CFDA 84.041)

Condition – The School District has not segregated all accounting duties to ensure that no one person is involved in more than one of the accounting and reporting processes of authorization, execution, custody and recording for any given transaction.

Criteria – A good system of internal accounting control includes adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause – The School District has limited staff available to fully segregate all duties.

Effect – Employees whose responsibilities encompass two or more phases of a transaction increases the risk of undetected errors, omissions, or misappropriation of assets of the School District. Inadequate segregation of duties also affects the School District's ability to detect misstatements or noncompliance that could be material in relation to the direct and material compliance requirements of the federal programs.

Recommendation – We recommend the School District evaluate the internal controls in the accounting and reporting process to determine if additional segregation of duties is feasible or if there are additional mitigating controls that can be implemented.

Status – This issue has not been resolved and is a repeat finding.

2013-002 Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Special Tests and Provisions – Material Weakness

2012-2013 Award Year – Title I – Grants to Local Education Agencies (CFDA 84.010) and Impact Aid (CFDA 84.041)

Condition – The School District did not have supporting documentation to verify that expenditures selected for testing were allowable costs of the federal programs. Also, due to the School District's inadequate accounting records and lack of supporting documentation, we were unable to provide assurance that Impact Aid funds received were used only for allowable activities or to provide an opinion on the School District's compliance with the special tests and provisions.

Criteria – Federal awards can only be expended for allowable activities and the School District must ensure that the costs of goods and services charged to federal programs are allowable. This includes maintaining adequate supporting documentation and accounting records to verify that expenditures charged to the federal programs are allowable.

Context –

- Title I – Grants to Local Education Agencies - The School District did not have adequate supporting documentation for 13 of 20 expenditures selected for testing.

Questioned costs –

- Title I – Grants to Local Education Agencies – 13 of 20 expenditures selected for testing were considered unallowable costs. The expenditures totaled \$68,047.

Cause – The School District was unable to provide supporting documentation for these expenditures and did not maintain adequate accounting records during the year.

Effect – Lack of proper controls to ensure expenditures of Federal awards are allowable costs and activities could lead to unallowable costs and activities being paid with federal funds. Noncompliance with the federal program requirements could also result in the federal funding agencies requiring the return of previously awarded grant funds if they determine the funds were used for unallowable activities.

Recommendation – We recommend the School District ensure that all funds expended under the federal programs are for appropriate purposes and that controls are in place to ensure all expenditures of federal funds are allowable including maintaining supporting documentation and adequate accounting records for all federal expenditures.

Status – This issue was corrected.

2013-003 Cash Management - Material Weakness

2012-2013 Award Year, Title I – Grants to Local Education Agencies (CFDA 84.010)

Condition – We were unable to rely on the general ledger to test compliance with cash management based on the inadequate accounting records maintained by the School District for the year ended June 30, 2013.

Criteria – According to 2 CFR section 215.22, grantees on a reimbursement basis should incur expenditures before funds are requested from the federal agency. A good system of internal controls includes maintaining accurate accounting records that support those expenditures were incurred prior to the requests for reimbursement.

Cause - The School District did not have adequate controls to enable us to rely on the general ledger balances to test compliance with this compliance requirement.

Effect - This could result in the School District requesting more funds than are allowable for the Program or requesting reimbursements for unallowable costs and could result in the School District being required to refund excess funds.

Recommendation – We recommend the School District implement internal control procedures to ensure accurate records are maintained in the accounting system for all transactions.

Status – This issue was corrected.

2013-004 Period of Availability – Material Weakness

2012-2013 Award Year, Title I – Grants to Local Education Agencies (CFDA 84.010)

Condition – The School District was unable to provide reliable accounting records to support that the period of availability requirements were met. We were unable to rely on the general ledger to test compliance with period of availability based on the inadequate accounting records maintained by the School District.

Criteria – Recipients of Title I funds must obligate funds during the 27 months, extending from July 1 of the fiscal year for which the funds were appropriated through September 30 of the second following fiscal year. The maximum period includes a 15 month period of initial availability plus a 12 month period for carryover. In addition, recipients of Title I, Part A funds may not carry over beyond the initial 15 months of availability more than 15 percent of its Title I, Part A funds.

Cause – The School District did not have adequate controls to enable us to rely on the general ledger balances to test compliance with this compliance requirement.

Effect – This can lead to the School carrying over more funds than they are allowed to and obligating funds beyond the period of availability for the funds. The federal funding agency could also require a refund of excess funds if a waiver has not been granted.

Recommendation – The School District should maintain proper grant records to track the carryover for each federal program and monitor the period of availability requirements. If the carryover and period of availability requirements are not met, the School District should request a waiver from the federal funding agencies.

Status – This issue was corrected.

2013-005 Procurement and Suspension and Debarment– Material Weakness

2012-2013 Award Year, Title I – Grants to Local Education Agencies (CFDA 84.010)

Condition – The School District did not have supporting documentation to test compliance with procurement and suspension and debarment.

Criteria – Recipients of federal funds are required to use the same policies and procedures used for procurements from non-Federal funds as procurements from Federal funds which should conform to applicable Federal law regulations identified in 2 CFR part 215. Entities are prohibited from contracting with or making subawards to parties that are suspended or debarred or whose principals are suspended or debarred for nonprocurement transactions that are expected to equal or exceed \$25,000 as specified in 2 CFR part 180.

Cause – The School District did not have adequate controls to enable us to rely on the general ledger balances to test compliance with this compliance requirement

Effect – This could lead to unallowable costs being paid for with federal funds and could lead to the School District entering into contracts with suspended or debarred parties.

Recommendation – We recommend the School District implement internal control procedures to ensure adequate supporting documentation is maintained for all transactions.

Status – This issue was corrected.

2013-006 Reporting – Material Weakness

2012-2013 Award Year – Title I – Grants to Local Education Agencies (CFDA 84.010)

Condition – The School District was unable to provide copies of all of the required reports that were submitted to the Federal awarding agencies. In addition, we were unable to rely on the School District's accounting records to test amounts reported on financial reports that were provided based on the inadequate accounting records maintained by the School District.

Criteria – Local educational agencies receiving funds on a reimbursement basis are required to complete a request for reimbursement form requesting payment of grant award funds. All reports submitted should be supported by the accounting records or other data and the School District should maintain records of the supporting documentation.

Cause – The School District did not have adequate controls to enable us to rely on the general ledger balances to test compliance with this compliance requirement.

Effect – This could result in errors in the data reported to funding agencies which could lead to incorrect funding of the federal programs.

Recommendation – We recommend the School District implement internal control procedures to maintain copies of the reports submitted and supporting documentation for the data reported.

Status – This issue was corrected.

2013-007 Reporting – Material Weakness

2012-2013 Award Year – Impact Aid (CFDA 84.041)

Condition – Certain financial data reported on the School District's Impact Aid application in Tables 7 and 10 did not agree to the School District's accounting records. In addition, we were unable to rely on the School District's accounting records to test the accuracy of the financial data reported based on the inadequate accounting records maintained by the School District.

Criteria – Local educational agencies are required to submit an annual Impact Aid application which provides specific information including counts of federally connected children in various categories, membership data and financial data. All reports submitted should be supported by the accounting records or other data and the School District should maintain records of the supporting documentation.

Cause – The application included errors in the input of certain financial data reported. The School District also did not have adequate controls to enable us to rely on the general ledger balances to test compliance with this requirement.

Effect – This could result in errors in the data reported to funding agencies which could lead to incorrect funding of the federal programs.

Recommendation – We recommend the School District implement internal control procedures to ensure reports submitted are complete and accurate and to maintain adequate supporting documentation for the data reported.

Status – This issue has not been resolved and is a repeat finding.

A. Summary of Auditor's Results

Financial Statements

Type of auditors' report issued	Modified
Internal control over financial reporting:	
Material weakness identified	Yes
Significant deficiency	None reported
Noncompliance material to financial statements noted	Yes

Federal Awards

Internal control over federal programs:	
Material weakness identified	Yes
Significant deficiency	None reported

Type of auditors' report issued on compliance for major programs	
Title I - Grants to Local Education Agencies	Unmodified
Impact Aid	Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No
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Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA number</u>
Title I - Grants to Local Education Agencies	84.010
Impact Aid	84.041

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
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Auditee qualified as low-risk auditee	No
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B. Findings - Financial Statement Audit

2014-A Lack of Segregation of Duties – Material Weakness

Condition – The School District has not segregated all accounting duties to ensure that no one person is involved in more than one of the accounting and reporting processes of authorization, execution, custody and recording for any given transaction.

Criteria – A good system of internal accounting control includes adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause – The School District has limited staff available to fully segregate all duties.

Effect – Employees whose responsibilities encompass two or more phases of a transaction increases the risk of undetected errors, omissions, or misappropriation of assets of the School.

Recommendation – We recommend the School District evaluate the internal controls in the accounting and reporting process to determine if additional segregation of duties is feasible or if there are additional mitigating controls that can be implemented.

Response - The School does not have the budget to employ two business people in order to segregate duties. During the 2013-2014 year, the School hired a Business Manager with 7 years of experience in a School similar to Fort Yates Public School. The School she was employed with was on a reservation and the School size and budget was the same. She handles all internal accounting controls. However, the Building Principal and Assistant Superintendent must authorize and sign off on all purchase orders, request for payments, and travel requests. The Business Manager and Assistant Superintendent do not sign any checks. All negotiable instruments must be signed by two School board members. This way at least two board members must authorize all checks that are being written at all times.

With the new Business Manager, the School will continue to adopt internal control improvements and changes that will govern the fiscal operations of the School.

2014-B Preparation of Financial Statements – Material Weakness

Condition – The School District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Criteria - Proper controls over financial reporting include preparing financial statements and accompanying notes to the financial statements that are materially correct.

Cause - The School District does not have staff trained in all governmental reporting standards and did not complete all year-end adjustments and reconciliations to provide audit ready financial data.

Effect - Inadequate control over financial reporting could result in a reasonable possibility that a material misstatement of the School District's financial statements and accompanying notes to the financial statements will not be prevented, or detected and corrected on a timely basis.

Recommendation - While we recognize that this condition is not unusual for an organization of your size, it is important that you be aware of this condition for financial reporting purposes. 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.

Response – During the 2013-2014 year, the School hired a Business Manager with 7 years of experience in a School similar to Fort Yates Public School. The School she was employed with was on a reservation and the School size and budget was the same. The new Business Manager knows which reports and financial statements need to be filed and how to fill them out properly. With her experience, we are confident with the reporting being correctly executed. The Business Manager prepares the financial statements on a monthly basis. Those financial statements ensure the expenditures of federal grant dollars and state monies accordingly to the guidelines. The Business Manager classifies all disbursements per the appropriate fund and ensures the proper cost is being charged to the proper fund. Monthly financial statements show grant awards received, grant and state monies deposits, and expenditure reports. The Business Manager reconciles the grant awards and makes the appropriate journal entries. The Business Manager also reconciles the checking account on a monthly basis so the financial statements will reflect a correct balance.

The School is no longer outsourcing the payroll because the Business Manager is doing payroll using the School's current accounting software system. This will eliminate a majority of the general ledger journal entries needed to reflect payroll exactly.

2014-C Recording of Transactions and Financial Statement Misstatements – Material Weakness

Condition - We identified misstatements in the School District's financial statements causing us to propose material audit adjustments. The financial statements also include errors in amounts previously reported which resulted in restatements of fund balance and net position at July 1, 2013.

Criteria - A good system of internal accounting control includes proper reconciliation of all general ledger accounts and adjustments of those accounts to the proper balances.

Cause – The School District does not have staff trained in all governmental accounting standards and did not complete all year-end adjustments and reconciliations to provide audit ready financial data.

Effect - Inadequate internal controls over recording of transactions affect the School District's ability to detect misstatements in amounts that could be material in relation to the financial statements.

Recommendation - We recommend the School District reconcile all general ledger accounts, adjust the accounts to the proper balances in a timely manner and record all transactions in accordance with a modified cash basis of accounting.

Response -- The new Business Manager knows which reports and financial statements need to be filed and how to fill them out properly. With her experience, we are confident with the reporting being correctly executed. She knows how to journal entry all expenses that need to be reflected in the general ledger. A problem of the past was Capital Accounting was assisting with the checking reconciliation and journal entries. We believe some things may have been mixed up or entered twice. The Business Manager now prepares the financial statements on a monthly basis. Those financial statements ensure the expenditures of federal grant dollars and state monies accordingly to the guidelines. The Business Manager classifies all disbursements per the appropriate fund and ensures the proper cost is being charged to the proper fund. Monthly financial statements show grant awards received, grant and state monies deposits, and expenditure reports. The Business Manager reconciles the grant awards and make any all appropriate journal entries. The Business Manager also reconciles the checking account on a monthly basis so the financial statements reflect a correct balance.

The School is no longer outsourcing the payroll because the Business Manager is doing payroll using the School's current accounting software system. This will eliminate a majority of the general ledger journal entries needed to reflect payroll exactly.

2014-D Noncompliance with Continuing Disclosure Requirements – Material Weakness

Condition - The School District has not complied with its continuing disclosure requirements by submitting annual reports that include updated information related to items such as enrollment, projected enrollment, population statistics, unemployment rates, property values in the district and property tax rates and collections.

Criteria - As part of the School District's bond agreement, the School District is required to comply with continuing disclosure requirements to comply with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934. The School District entered into a continuing disclosure agreement which includes a requirement to submit an annual report which shall contain updated information contained in Tables 1 through 13 of the Series 2005 Lease Revenue Bonds' Final Official Document.

Cause - The School District has submitted audited financial statements as part of its continuing disclosure requirements, but has not monitored compliance with all of the continuing disclosure requirements that they are required to meet or established internal control policies to make sure all of the necessary disclosure requirements are met.

Effect - Failure to comply with the continuing disclosure requirements may adversely affect the transferability and liquidity of the School District's bonds and their market price. Failure to comply could also result in penalties to the School District or additional costs incurred to become compliant.

Recommendation - We recommend the School District submit all past-due information that was required to be included in the annual reports and establish procedures to submit the necessary annual reports with all of the required information to comply with the continuing disclosure requirements going forward.

Response - The School District will develop procedures to monitor and comply with the necessary continuing disclosure requirements.

C. Findings - Major Federal Award Programs Audit

2014-001 Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Lack of Segregation of Duties – Material Weakness

2013-2014 Award Year – Title I – Grants to Local Education Agencies (CFDA 84.010) and Impact Aid (CFDA 84.041)

Condition – The School District has not segregated all accounting duties to ensure that no one person is involved in more than one of the accounting and reporting processes of authorization, execution, custody and recording for any given transaction.

Criteria – A good system of internal accounting control includes adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause – The School District has limited staff available to fully segregate all duties.

Effect – Employees whose responsibilities encompass two or more phases of a transaction increases the risk of undetected errors, omissions, or misappropriation of assets of the School District. Inadequate segregation of duties also affects the School District's ability to detect misstatements or noncompliance that could be material in relation to the direct and material compliance requirements of the federal programs.

Recommendation – We recommend the School District evaluate the internal controls in the accounting and reporting process to determine if additional segregation of duties is feasible or if there are additional mitigating controls that can be implemented.

Response – As discussed previously, the School has hired an experienced Business Manager. She knows the rules and regulations applied to the federal grants and state monies. The Business Manager has the Assistant Superintendent and Title Coordinator approve all federal fund expenditures before any money is spent. The Business Manager understands what allowable costs and supplanting are because of her experience. With her experience, she knows what documentation is needed for a School audit and reporting purposes. She knows what reports to file and how to file them. The Business Manager will no longer issue purchase orders or payments with federal funds unless approved by the Authorized Representative of that Federal Grant.

The Title Coordinator will, also, communicate with the Department of Public Instruction if she has any questions regarding allowable costs. The School no longer guesses and expends money if it has not been approved by the State. The new Assistant Superintendent, new Title Coordinator, and new Business Manager, along with the Superintendent of the Standing Rock Community Grant School met with the Department of Public Instructions' main Financial Directors. We had a good discussion on how communication is important with our grants. We assured them that reports will be done correctly and filed by the due date, monies will be expended correctly, and communication will increase with the new staff. The DPI staff were ecstatic to hear this information.

2014-002 Reporting – Material Weakness

2013-2014 Award Year – Impact Aid (CFDA 84.041)

Condition – Certain financial data reported on the School District’s Impact Aid application in Table 10 did not agree to the School District’s accounting records.

Criteria – Local educational agencies are required to submit an annual Impact Aid application which provides specific information including counts of federally connected children in various categories, membership data and financial data.

Cause – The application included errors in the input of certain financial data reported.

Effect – This could result in errors in the data reported to funding agencies which could lead to incorrect funding of the federal programs.

Recommendation – We recommend the School District implement internal control procedures to ensure reports submitted are complete and accurate.

Response – The new Business Manager will be doing the Federal Impact Aid Grant this year. In her previous Business Manager position, she was responsible for this Grant from the beginning to the end. She will work with the building secretary to get all student enrollment numbers and make sure all students claimed live on the reservation. She has many years of experience with all the reporting, general entries, and allowable costs. She will maintain all supporting documentation and records for this grant so it will be accessible for audit time.