



Financial Statements  
June 30, 2015

# Fort Yates Public School District No. 4

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CPAs & BUSINESS ADVISORS

## Independent Auditor's Report

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

### Report on the Financial Statements

We were engaged to audit 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 (the School District), Fort Yates, North Dakota, as of June 30, 2015, 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, which collectively comprise the School District'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. Because of the matter described in the Basis for Disclaimer of Opinion – Modified Cash Basis paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### Basis for Disclaimer of Opinion

The outsourcing of cash reconciliations and turn over in business manager during June 2015, resulted in numerous misstatements to cash, capital assets and related depreciation, revenues, and expenditures, which are material. As of the date of our audit report, management was still in the process of rectifying the deficiencies and correcting the misstatements. We were unable to confirm or verify, by performing other audit procedures, the cash and capital assets included in the statement of net position – modified cash basis, at June 30, 2015, nor for the various fund balance sheets for governmental funds – modified cash basis at June 30, 2015. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded cash and capital assets, and the elements making up the statement of activities – modified cash basis nor for the statements of revenues, expenditures, and changes in fund balance for governmental funds – modified cash basis.

**Disclaimer of Opinion**

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. Accordingly, we do not express an opinion on these financial statements.

**Correction of Errors**

As discussed in Note 10 to the financial statements, there were errors in amounts previously reported as of July 1, 2014 that were discovered by management of Fort Yates Public School District during the current year. Accordingly, amounts reported for fund balance and net position as of July 1, 2014 have been restated to correct the errors. Our opinion is modified with respect to this matter.

**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 for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis and is not a required part of the financial statements. Because of the significance of the matter described in the Basis for Disclaimer of Opinion – Modified Cash Basis 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 August 11, 2017 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  
August 11, 2017

Fort Yates Public School District No. 4  
Statement of Net Position -- Modified Cash Basis  
June 30, 2015

|  | Governmental<br>Activities |
|--|----------------------------|
| <b>Assets</b>                                    |                            |
| Cash and investments                             | \$ -                       |
| Restricted cash and investments                  | 985,017                    |
| Capital assets not being depreciated             |                            |
| Land   | 16,800                     |
| Capital assets (net of accumulated depreciation) |                            |
| Buildings  | 9,774,238                  |
| Total capital assets                             | 9,791,038                  |
| Total assets                                     | \$ 10,776,055              |
| <b>Liabilities</b>                               |                            |
| Checks in excess of deposits                     | \$ 77,264                  |
| Long-term liabilities                            |                            |
| Due within one year                              |                            |
| Lease revenue bonds payable                      | 320,000                    |
| Due after one year                               |                            |
| Lease revenue bonds payable                      | 4,265,000                  |
| Total liabilities                                | \$ 4,662,264               |
| <b>Net Position</b>                              |                            |
| Net investment in capital assets                 | \$ 6,191,055               |
| Unrestricted                                     | (77,264)                   |
| Total net position                               | \$ 6,113,791               |

Fort Yates Public School District No. 4  
Statement of Activities – Modified Cash Basis  
Year Ended June 30, 2015

| Functions/Programs                             | Expenses            | Program Revenues        |  | Net (Expense)<br>Revenue and<br>Changes in<br>Net Position |
|--|---------------------|-------------------------|--|--|
|  |                     | Charges for<br>Services | Operating<br>Grants and<br>Contributions |  |
| Governmental activities                        |                     |                         |  |  |
| Regular programs                               | \$ 1,121,753        | \$ 79,020               | \$ 49,505                                | \$ (993,228)   |
| Federal programs                               | 1,524,600           | -                       | 864,552                                  | (660,048)  |
| Special education                              | 42,049              | -                       | -  | (42,049)   |
| District wide services                         | 157,741             | -                       | -  | (157,741)  |
| Administration                                 | 424,353             | -                       | -  | (424,353)  |
| Operations and maintenance                     | 403,277             | -                       | 23,838                                   | (379,439)  |
| Transportation                                 | 9,112               | -                       | 13,268                                   | 4,156  |
| Student activities                             | 206,823             | -                       | -  | (206,823)  |
| Food service                                   | 308,394             | -                       | 161,606                                  | (146,788)  |
| Interest                                       | 233,491             | -                       | -  | (233,491)  |
| Unallocated depreciation                       | 270,701             | -                       | -  | (270,701)  |
| Total governmental activities                  | <u>\$ 4,702,294</u> | <u>\$ 79,020</u>        | <u>\$ 1,112,769</u>                      | <u>(3,510,505)</u>   |
| General Revenues                               |                     |                         |  |  |
| Taxes  |                     |                         |  |  |
| Property taxes; levied for general purposes    |                     |                         |  | 80,500   |
| Federal aid-not restricted to specific program |                     |                         |  | 1,150,306  |
| State aid-not restricted to specific program   |                     |                         |  | 1,779,962  |
| Interest                                       |                     |                         |  | 25,361   |
| Miscellaneous revenue                          |                     |                         |  | 5,602  |
| Total general revenues                         |                     |                         |  | <u>3,041,731</u>   |
| Change in net position                         |                     |                         |  | <u>(468,774)</u>   |
| Net position - July 1, as restated (Note 10)   |                     |                         |  | <u>6,582,565</u>   |
| Net position - June 30                         |                     |                         |  | <u>\$ 6,113,791</u>  |

Fort Yates Public School District No. 4  
 Balance Sheet – Governmental Funds – Modified Cash Basis  
 June 30, 2015

|  | Major Funds     |                       | Total<br>Governmental<br>Funds |
|--|-----------------|-----------------------|--------------------------------|
|  | General         | Building<br>Authority |                                |
| <b>Assets</b>                                  |                 |                       |                                |
| Cash and investments                           | \$ -            | \$ -                  | \$ -                           |
| Restricted cash and investments                | -               | 985,017               | 985,017                        |
| <b>Total assets</b>                            | <u>\$ -</u>     | <u>\$ 985,017</u>     | <u>\$ 985,017</u>              |
| <b>Liabilities and Fund Balances</b>           |                 |                       |                                |
| <b>Liabilities</b>                             |                 |                       |                                |
| Checks in excess of deposits                   | \$ 77,264       | \$ -                  | \$ 77,264                      |
| <b>Total liabilities</b>                       | <u>77,264</u>   | <u>-</u>              | <u>77,264</u>                  |
| <b>Fund Balances</b>                           |                 |                       |                                |
| Restricted for                                 |                 |                       |                                |
| Debt service                                   | -               | 985,017               | 985,017                        |
| Unassigned                                     | (77,264)        | -                     | (77,264)                       |
| <b>Total fund balances</b>                     | <u>(77,264)</u> | <u>985,017</u>        | <u>907,753</u>                 |
| <b>Total liabilities and<br/>fund balances</b> | <u>\$ -</u>     | <u>\$ 985,017</u>     | <u>\$ 985,017</u>              |

Fort Yates Public School District No. 4  
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – Modified Cash Basis  
 June 30, 2015

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|  |                    |                            |
|--|--------------------|----------------------------|
| Total fund balances for governmental funds   |                    | \$ 907,753                 |
| 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>(4,056,130)</u> |                            |
| Net capital assets   |                    | 9,791,038                  |
| 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, 2015 are: |                    |                            |
| Lease revenue bonds payable  |                    | <u>(4,585,000)</u>         |
| Total net position of governmental activities  |                    | <u><u>\$ 6,113,791</u></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, 2015

|   | Major Funds        |                       | Total<br>Governmental<br>Funds |
|---|--------------------|-----------------------|--------------------------------|
|   | General            | Building<br>Authority |                                |
| <b>Revenues</b>   |                    |                       |                                |
| Local sources   | \$ 170,405         | \$ -                  | \$ 170,405                     |
| State sources   | 1,798,647          | -                     | 1,798,647                      |
| Federal sources   | 2,239,265          | -                     | 2,239,265                      |
| Other revenue   | -                  | 25,203                | 25,203                         |
| Total revenues  | <u>4,208,317</u>   | <u>25,203</u>         | <u>4,233,520</u>               |
| <b>Expenditures</b>                                       |                    |                       |                                |
| <b>Current</b>  |                    |                       |                                |
| Regular programs  | 1,121,753          | -                     | 1,121,753                      |
| Federal programs  | 1,524,600          | -                     | 1,524,600                      |
| Special education   | 42,049             | -                     | 42,049                         |
| District wide services                                    | 157,741            | -                     | 157,741                        |
| Administration  | 424,353            | -                     | 424,353                        |
| Operations and<br>maintenance                             | 403,277            | -                     | 403,277                        |
| Transportation  | 9,112              | -                     | 9,112                          |
| Student activities  | 206,823            | -                     | 206,823                        |
| Food service  | 308,394            | -                     | 308,394                        |
| Debt service  |                    |                       |                                |
| Principal   | -                  | 305,000               | 305,000                        |
| Interest  | -                  | 233,491               | 233,491                        |
| Total expenditures  | <u>4,198,102</u>   | <u>538,491</u>        | <u>4,736,593</u>               |
| Excess (Deficiency) of Revenues over<br>over Expenditures | <u>10,215</u>      | <u>(513,288)</u>      | <u>(503,073)</u>               |
| <b>Other Financing Sources (Uses)</b>                     |                    |                       |                                |
| Transfers in  | -                  | 377,047               | 377,047                        |
| Transfers out   | <u>(377,047)</u>   | <u>-</u>              | <u>(377,047)</u>               |
| Total Other Financing Sources and Uses                    | <u>(377,047)</u>   | <u>377,047</u>        | <u>-</u>                       |
| Net Change in Fund Balances                               | <u>(366,832)</u>   | <u>(136,241)</u>      | <u>(503,073)</u>               |
| Fund Balance - July 1, as restated (Note 10)              | <u>289,568</u>     | <u>1,121,258</u>      | <u>1,410,826</u>               |
| Fund Balance - June 30                                    | <u>\$ (77,264)</u> | <u>\$ 985,017</u>     | <u>\$ 907,753</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, 2015

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|  |                     |
|--|---------------------|
| Net change in fund balances - total governmental funds   | \$ (503,073)        |
| 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 capital outlays exceeded depreciation in the current year. |                     |
| Current year depreciation expense  | (270,701)           |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.   |                     |
| Principal payments   | <u>305,000</u>      |
| Change in net position of governmental activities  | <u>\$ (468,774)</u> |

**Note 1 - Summary of Significant Accounting Policies**

The financial statements of the Fort Yates Public School District No. 4 (the School District), Fort Yates, North Dakota, have been prepared using another 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**

The government-wide financial statements are reported using the economic 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.

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.

### **Pension**

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the North Dakota Teachers' Fund for Retirement (NDTFFR) and additions to/deductions from NDTFFR's fiduciary net position have been determined on the same basis as they are reported by NDTFFR. 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. The net pension liability is not reported under the modified cash basis of accounting, but the information disclosed in the pension footnote, Note 7, is shown as additional information to the users of the financial statements.

**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, 2015, the School District's carrying amount of checks in excess of deposits was \$77,264 and the bank balance was \$205,205.

As of June 30, 2015, the School District had the following investments.

| Investment Type          | Fair Value        | Investment Maturities (in Years) |             |             |                   |
|--------------------------|-------------------|----------------------------------|-------------|-------------|-------------------|
|                          |                   | Less Than<br>1                   | 1-5         | 6-10        | More Than<br>10   |
| Money market             | \$ 433,517        | \$ 433,517                       | \$ -        | \$ -        | \$ -              |
| Private debt obligations | 551,500           | -                                | -           | -           | 551,500           |
|                          | <u>\$ 985,017</u> | <u>\$ 433,517</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, 2015, 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, 2015:

| Governmental Activities                      | Balance<br>July 1    | Increases           | Decreases   | Balance<br>June 30  |
|--|----------------------|---------------------|-------------|---------------------|
| 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                                    | 3,463,754            | 270,701             | -           | 3,734,455           |
| Furniture and equipment                      | 51,205               | -                   | -           | 51,205              |
| Vehicles                                     | 270,470              | -                   | -           | 270,470             |
| Total accumulated depreciation               | <u>3,785,429</u>     | <u>270,701</u>      | <u>-</u>    | <u>4,056,130</u>    |
| Total capital assets, being depreciated, net | <u>10,044,939</u>    | <u>(270,701)</u>    | <u>-</u>    | <u>9,774,238</u>    |
| Governmental activities capital assets, net  | <u>\$ 10,061,739</u> | <u>\$ (270,701)</u> | <u>\$ -</u> | <u>\$ 9,791,038</u> |

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

|  |                   |
|--|-------------------|
| <u>Governmental Activities</u>                       |                   |
| Unallocated  | \$ 270,701        |
| 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, 2015:

|                     | Balance<br>July 1   | Increases   | Decreases         | Balance<br>June 30  | Due Within<br>One Year |
|---------------------|---------------------|-------------|-------------------|---------------------|------------------------|
| Lease revenue bonds | \$ 4,890,000        | \$ -        | \$ 305,000        | \$ 4,585,000        | \$ 320,000             |
| Total               | <u>\$ 4,890,000</u> | <u>\$ -</u> | <u>\$ 305,000</u> | <u>\$ 4,585,000</u> | <u>\$ 320,000</u>      |

Lease revenue bonds consist of the following at June 30, 2015:

|   |                     |
|---|---------------------|
| \$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>\$ 4,585,000</u> |
|---|---------------------|

Maturities on the lease revenue bonds at June 30, 2015 are as follows:

| Year Ending June 30 | Lease Revenue Bonds |                     |
|---------------------|---------------------|---------------------|
|                     | Principal           | Interest            |
| 2016                | \$ 320,000          | \$ 220,130          |
| 2017                | 335,000             | 204,875             |
| 2018                | 350,000             | 187,750             |
| 2019                | 370,000             | 169,750             |
| 2020                | 390,000             | 150,750             |
| 2021-2025           | <u>2,820,000</u>    | <u>419,250</u>      |
| Total               | <u>\$ 4,585,000</u> | <u>\$ 1,352,505</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 \$5,937,505 at June 30, 2015. 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, 2015 was \$538,491. Total net revenues for the year ended June 30, 2015 were \$1,150,306.

**Note 5 - Transfers**

The following is a reconciliation between transfers in and transfers out as reported for the year ended June 30, 2015:

| Fund               | Transfers In | Transfers Out |
|--------------------|--------------|---------------|
| General fund       | \$ -         | \$ 377,047    |
| Building authority | 377,047      | -             |
| Total              | \$ 377,047   | \$ 377,047    |

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 (NDRIF), 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 NDRIF for its general liability, automobile and inland marine insurance coverage. The coverage by NDRIF 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**

### **North Dakota Teachers' Fund for Retirement**

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

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

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

### **Pension Benefits**

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

#### *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 credited service in North Dakota, and (c) the Board of Trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and uses the member's actual years of credited service. There is no actuarial reduction for reason of disability retirement.

**Member and Employer Contributions**

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

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

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

At June 30, 2015, the Employer reported a liability of \$1,835,859 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers.

For the year ended June 30, 2015, the Employer recognized pension expense of \$111,596. At June 30, 2015, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience  | \$ 14,038                            | \$ -                                |
| Changes in assumptions  |                                      |                                     |
| Net difference between projected and actual earnings on pension plan investments                              |                                      | 208,558                             |
| Changes in proportion and differences between employer contributions and proportionate share of contributions |                                      |                                     |
| Employer contributions subsequent to the measurement date   | 145,844                              |                                     |
| Total   | \$ 159,882                           | \$ 208,558                          |

\$145,844 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended June 30</u> |             |
|---------------------------|-------------|
| 2016                      | \$ (49,800) |
| 2017                      | (49,800)    |
| 2018                      | (49,800)    |
| 2019                      | (49,800)    |
| 2020                      | 2,340       |
| Thereafter                | 2,340       |

**Actuarial Assumptions**

The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                            |   |
|----------------------------|---|
| Inflation                  | 3.00%   |
| Salary Increases           | 4.50% to 14.75%, varying by service, including inflation and productivity |
| Investment rate of return  | 8.00%, net of investment expenses   |
| Cost-of-living adjustments | None  |

For inactive members and healthy retirees, mortality rates are based on 80% of GRS Table 378 and 75% of GRS Table 379. For active members, mortality rates are based on the post-retirement mortality rates multiplied by 60% for males and 40% for females. For disabled retirees, mortality rates are based on the RP-2000 Disabled-Life tables for Males and Females multiplied by 80% and 95%, respectively.

The actuarial assumptions used were based on the results of an actuarial experience study dated January 21, 2010. They are the same as the assumptions used in the July 1, 2014, 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 by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

| <u>Asset Class</u>  | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|---------------------|--------------------------|---|
| Global Equities     | 57.0%                    | 7.53%   |
| Global Fixed Income | 22.0%                    | 1.40%   |
| Global Real Assets  | 20.0%                    | 5.38%   |
| Cash Equivalents    | 1.0%                     | 0.00%   |

**Discount Rate**

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2014. 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, 2014, 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, 2014. 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, 2014.

**Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

|  | 1% Decrease<br>(7.00%) | Current Single<br>Discount Rate<br>(8.00%) | 1% Increase<br>(9.00%) |
|--|------------------------|--|------------------------|
| District's proportionate share of the TFFR net pension liability | \$ 2,478,750           | \$ 1,835,859                               | \$ 1,295,169           |

**Pension Plan Fiduciary Net Position**

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

**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 - Restatement**

During the year ended June 30, 2015 the School District went through the process of cleaning out and reconciling any old or stale accounts. During this process the School District found items that were not proper or double counted reconciling items. These items, in the aggregate, represented a material difference. The corrections resulted in restatements to fund balance and net position at July 1, 2014. The adjustments to beginning fund balance and net position are as follows:

|  | General Fund | Total<br>Governmental<br>Funds | Governmental<br>Activities |
|--|--------------|--------------------------------|----------------------------|
| Fund balance/net position - July 1, as previously reported | \$ 55,514    | \$ 1,176,772                   | \$ 6,348,511               |
| Restatement due to correction of errors                    | 234,054      | 234,054                        | 234,054                    |
| Fund balance/net position - July 1, as restated            | \$ 289,568   | \$ 1,410,826                   | \$ 6,582,565               |

**Note 11 - Subsequent Event**

On July 1, 2015 the School District entered into a \$3,775,000 Refunding Certificate of Indebtedness, Series 2015. The proceeds of the Certificate will be used for the purpose of refunding on a current basis the 2016 through 2024 maturities of the \$6,950,000 Lease Revenue Bonds, Series 2005 which is disclosed in Note 4.



Supplementary Information  
June 30, 2015

# Fort Yates Public School District

Fort Yates Public School District No. 4  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2015

| Federal Grantor/<br>Pass-Through Grantor/<br>Program Title       | Federal<br>CFDA<br>Number | Expenditures        |
|--|---------------------------|---------------------|
| U.S. Department of Agriculture                                   |                           |                     |
| <u>Passed through State Department of Public Instruction</u>     |                           |                     |
| Fresh Fruit and Vegetable Program                                | 10.582                    | \$ 8,497            |
| Child Nutrition Cluster  |                           |                     |
| School Breakfast Program   | 10.553                    | 36,972              |
| National School Lunch Program                                    | 10.555                    | 110,178             |
| Summer Food Service Program for Children                         | 10.559                    | 12,043              |
| Total Child Nutrition Cluster                                    |                           | <u>159,193</u>      |
| Total Department of Agriculture                                  |                           | <u>167,690</u>      |
| U.S. Department of Interior                                      |                           |                     |
| <u>Passed through Standing Rock Sioux Tribe</u>                  |                           |                     |
| Indian Education Assistance to Schools - Johnson O'Malley        | 15.130                    | <u>13,860</u>       |
| Total Department of Interior                                     |                           | <u>13,860</u>       |
| U.S. Department of Education                                     |                           |                     |
| <u>Passed through the State Department of Public Instruction</u> |                           |                     |
| Title I - Grants to Local Education Agencies                     | 84.010                    | 440,893             |
| English Language Acquisition State Grants                        | 84.365A                   | 180                 |
| Title IIA - Improving Teacher Quality State Grants               | 84.367A                   | 190,543             |
| <u>Direct Assistance</u>   |                           |                     |
| Impact Aid   | 84.041                    | 1,150,306           |
| Indian Education - Grants to Local Educational Agencies          | 84.060A                   | <u>44,176</u>       |
| Total Department of Education                                    |                           | <u>1,826,098</u>    |
| Total Expenditures of Federal Awards                             |                           | <u>\$ 2,007,648</u> |

**Note A – Basis of Presentation**

The Schedule of Expenditures of Federal Awards represents amounts expended from federal programs during the year ended June 30, 2015 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, 2015, the School District received food commodities totaling \$9,508.

**Schedule of Employer's Share of Net Pension Liability  
 ND Teachers' Fund for Retirement  
 Last 10 Fiscal Years\***

|   |              |
|---|--------------|
| Employer's proportion of the net pension liability  | 0.175207%    |
| Employer's proportionate share of the net pension liability   | \$ 1,835,859 |
| Employer's covered payroll  | 1,016,294    |
| Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 180.64%      |
| Plan fiduciary net position as a percentage of the total pension liability  | 66.60%       |

\* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10 year trend is compiled, the District will present information for those years for which information is available. Data presented is as of the measurement date of June 30, 2014.

**Schedule of Employer's Contributions  
 ND Teachers' Fund for Retirement  
 Last 10 Fiscal Years \***

|  |            |
|--|------------|
| Statutorily required contribution                                  | \$ 109,251 |
| Contributions in relation to the statutorily required contribution | (109,251)  |
| Contribution deficiency (excess)                                   | -          |
| District's covered-employee payroll                                | 1,016,294  |
| Contributions as a percentage of covered employee payroll          | 10.75%     |

\* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10 year trend is compiled, the District will present information for those years for which information is available. Data presented is as of the measurement date of June 30, 2014.



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**

To the 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 Fort Yates Public School District (the School District), which comprise the statement of financial position – modified cash basis as of June 30, 2015, and the related statements of activities – modified cash basis for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 11, 2017.

Our report included a disclaimer of opinion on the statement of net position – modified cash basis, balance Sheet – governmental funds – modified cash basis, statement of activities – modified cash basis and on the statement of revenues, expenditures and changes in fund balances – governmental funds – 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 to be material weaknesses. 2015-A, 2015-B, 2015-C, 2015-D, 2015-E, and 2015-F.

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 2015-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 Bailly LLP*

Bismarck, North Dakota  
August 11, 2017



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**

To the 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 (the School District), 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 the School District's major federal programs for the year ended June 30, 2015. The School District'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.



**Basis for Disclaimer of Opinion on CFDA 84.010 Title I**

We were unable to obtain sufficient appropriate audit evidence about the compliance of the School District with requirements regarding CFDA 84.010 Title I as described in finding numbers 2015-002 for Allowable Costs and Activities, 2015-003 for Cash Management, 2015-004 for Period of Availability, 2015-005 Procurement, Suspension, and Debarment, and 2015-006 for Reporting, nor were we able to satisfy ourselves as to the School District's compliance with those requirements by other auditing procedures.

**Disclaimer of Opinion on CFDA 84.010 Title I**

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 opinion on compliance. Accordingly, we do not express an opinion on the compliance requirements referred to above that could have a direct and material effect on its major Federal program CFDA 84.010 Title I identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2015.

**Basis for Qualified Opinion on CFDA 84.041 Impact Aid**

As described in the accompanying schedule of findings and questioned costs, the School District did not comply with requirements regarding 84.041 Impact Aid as described in finding number 2015-008 for Reporting. Compliance with such requirements is necessary, in our opinion, for the School District to comply with the requirements applicable to that program.

**Qualified Opinion on CFDA 84.041 Impact Aid**

In our opinion, except for the noncompliance described in the Basis of Qualified Opinion paragraph, the School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on CFDA 84.041 Impact Aid for the year ended June 30, 2015.

**Other Matters**

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

**Report on Internal Control over Compliance**

Management of the 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 2015-001, 2015-002, 2015-003, 2015-004, 2015-005, 2015-006, 2015-007, and 2015-008 to be material weaknesses.

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

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 Bailly LLP*

Bismarck, North Dakota  
August 11, 2017

**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.

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

**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.

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                      | Disclaimer    |
| 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   | Disclaimer    |
| Impact Aid   | Qualified     |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) | Yes           |

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 |
|---|-----------|

|                                       |    |
|---------------------------------------|----|
| Auditee qualified as low-risk auditee | No |
|---------------------------------------|----|

**B. Findings - Financial Statement Audit**

**2015-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 has hired a new Business Manager & Administrative Assistant to better elevate the segregation of duties findings. Internal controls and polices will be evaluated and updated.

**2015-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 – The School has hired a new Business Manager with much more experience than the previous Business Manager. Internal controls will be evaluated. Financial statements are now prepared on a monthly basis and reported to the School Board at the monthly financial meeting.

**2015-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, 2014.

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 School has hired a new Business Manager with much more experience than the previous Business Manager. Internal controls will be evaluated. Financial statements are now prepared on a monthly basis and reported to the School Board at the monthly financial meeting.

**2015-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

**2015-E Missing Board Minutes – Material Weakness**

Condition - We identified months where board minutes were unrecorded.

Criteria - A good system of internal accounting control includes proper board oversight over the financial statements and the School District as a whole.

Cause – The School District does not do a good job of keeping adequate documentation of monthly board minutes.

Effect – A lack of proper documentation of board minutes indicates a potential lack of proper board oversight.

Recommendation - We recommend the School District record minutes of all board meetings.

Response – A new Administrative Assistant has been hired and one of her job responsibilities is clerk for the school board. All board minutes will be recorded and stored properly.

**2015-F Insufficient Review of Payroll – Material Weakness**

Condition - We identified payroll reports where payroll reductions were not being applied.

Criteria - A good system of internal accounting control includes review of payroll.

Cause – The School District does not have adequate internal controls in place to ensure the review of payroll.

Effect – A lack of internal control of payroll could result in the misstatement of payroll.

Recommendation - We recommend the School District develop review procedures over payroll.

Response –The School has hired a new Business Manager with much more experience than the previous Business Manager. Internal controls will be evaluated. The Superintendent will be included in the review process

**C. Findings - Major Federal Award Programs Audit**

**2015-001 Allowable Costs & Activities, Lack of Segregation of Duties – Material Weakness**

2014-2015 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 – The School has hired a new Business Manager with much more experience than the previous Business Manager. Internal controls will be evaluated. The School has hired a Title Coordinator to make sure Title requirement are being met.



**2015-002 Allowable Costs and Activities, Special Tests and Provisions – Material Weakness**

2014-2015 Award Year – Title I – Grants to Local Education Agencies (CFDA 84.010)

Condition – The School District did not have supporting documentation to verify that expenditures selected for testing were allowable costs of the federal programs.

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 34 of 60 expenditures selected for testing.

Questioned costs –

- Title I – Grants to Local Education Agencies – 23 of 60 expenditures selected for testing were considered unallowable costs. The expenditures totaled \$10,463.35.

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.

Response – The School has hired a new Business Manager with much more experience than the previous Business Manager. Internal controls will be evaluated. Business Manager and Title Coordinator will work together to make sure expenditures are allowable.

**2015-003 Cash Management - Material Weakness**

2014-2015 Award Year, Title I – Grants to Local Education Agencies (CFDA 84.010)

Condition – Requests for reimbursement submitted by the School District were not adequately supported by accounting records and the School District was not able to provide reconciliations between the expenditures requested for reimbursement and the expenditures recorded in the general ledger. In addition, 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.

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.

Context –

- Title I – Grants to Local Education Agencies - The School District requested more than they expended for 1 of 8 reimbursements selected for testing.

Questioned costs –

- Title I – Grants to Local Education Agencies – 1 of 8 requests for reimbursements selected for testing requested more than what was supported by expenditures. The School District requested \$17,018.03 more than was supported by expenditures.

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.

Response – The School has hired a new Business Manager with much more experience than the previous Business Manager. Internal controls will be evaluated.

**2015-004 Period of Availability – Material Weakness**

2014-2015 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.

Response – The School has hired a new Business Manager with much more experience than the previous Business Manager. Internal controls will be evaluated. The Business Manager and Title Coordinator will work closely to make sure that all expenditures for the Title Grant are allowable and within the approved Title Budget. The Superintendent will approve all expenditures.

**2015-005 Procurement and Suspension and Debarment– Material Weakness**

2014-2015 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.

Response – The School has hired a new Business Manager with much more experience than the previous Business Manager. Internal controls will be evaluated.

**2015-006 Reporting – Material Weakness**

2014-2015 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 – The School has hired a new Business Manager with much more experience than the previous Business Manager. Internal controls will be evaluated. Business Manager and Title Coordinator will work together to make sure expenditures are allowable and reports are submitted on time.

**2015-007 Allowable Costs & Activities, Lack of Segregation of Duties – Material Weakness**

2014-2015 Award Year – 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 – The School has hired a new Business Manager with much more experience than the previous Business Manager. Internal controls will be evaluated. Business Manager and Superintendent will work together to make sure expenditures are allowable.

**2015-008 Reporting – Material Weakness and Material Noncompliance**

2014-2015 Award Year – Impact Aid (CFDA 84.041)

Condition – Certain financial data reported on the School District’s Impact Aid application in Tables 7 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 – The School has hired a new Business Manager with much more experience than the previous Business Manager. Internal controls will be evaluated. Business Manager and Superintendent will work together to make sure expenditures are allowable and reports are completed on a timely basis.