



Financial Statements  
June 30, 2015

# Twin Buttes School District No. 37

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<u>Official</u>	<u>Position</u>
Merlein Sorensen	Board President
Jim Mossett	Board Vice President
Jeb Fredericks	Board Member
Leon Little Owl	Board Member
Sierra Spotted Bear	Board Member
Sandy Starr	Principal
Lori Fredericks	Business Manager



CPAs & BUSINESS ADVISORS

## Independent Auditor's Report

To the School Board  
Twin Buttes School District No. 37  
Halliday, North Dakota

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Twin Buttes School District No. 37, Halliday, North Dakota as of and for the year ended June 30, 2015, 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.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Twin Buttes School District No. 37, Halliday, North Dakota, as of June 30, 2015, and the respective changes in financial position -- modified cash basis thereof for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

### **Basis of Accounting**

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

### **Other Matters**

#### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Twin Buttes School District No. 37, Halliday, North Dakota's financial statements. The School District Officials, Budgetary Comparison Schedule -- General Fund, Schedule of Employer's Share of Net Pension Liability -- ND Teacher's Fund for Retirement, Schedule of Employer Contributions -- ND Teacher's Fund for Retirement, and accompanying Schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements.

The Budgetary Comparison Schedule -- General Fund, Schedule of Employer's Share of Net Pension Liability -- ND Teacher's Fund for Retirement, Schedule of Employer Contributions -- ND Teacher's Fund for Retirement, and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedule -- General Fund, Schedule of Employer's Share of Net Pension Liability -- ND Teacher's Fund for Retirement, Schedule of Employer Contributions -- ND Teacher's Fund for Retirement, and Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The School District Officials listing has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2015, on our consideration of Twin Buttes School District No. 37, Halliday, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

*Eide Bailly LLP*

Bismarck, North Dakota  
December 16, 2015

Twin Buttes School District No. 37  
Statement of Net Position – Modified Cash Basis  
June 30, 2015

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Assets

Current Assets

Cash	\$ 624,989
Total current assets	<u>624,989</u>

Noncurrent Assets

Capital assets, net of accumulated depreciation	
Equipment	89,460
Vehicles	61,286
Total noncurrent assets	<u>150,746</u>

Total assets	<u>\$ 775,735</u>
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Net Position

Net investment in capital assets	\$ 150,746
Restricted for housing	108,989
Unrestricted	<u>516,000</u>

Total net position	<u>\$ 775,735</u>
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Twin Buttes School District No. 37  
Statement of Activities – Modified Cash Basis  
Year Ended June 30, 2015

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction	\$ 756,611	\$ -	\$ 251,548	\$ (505,063)
<b>Support Services</b>				
Guidance and library services	94,633	-	-	(94,633)
Administration services	367,609	23,705	129,750	(214,154)
Operations and maintenance	236,395	-	284,593	48,198
Transportation services	250,295	-	132,869	(117,426)
Food services	119,069	937	30,565	(87,567)
Community services	43,181	-	-	(43,181)
Student activities	5,361	-	-	(5,361)
	<b>\$ 1,873,154</b>	<b>\$ 24,642</b>	<b>\$ 829,325</b>	<b>(1,019,187)</b>
 <b>General Revenues</b>				
Oil and gas production				120,568
State aid not restricted for a specific purpose				
Per pupil aid				201,489
Other state aid				185,834
Federal aid not restricted for a specific purpose				
Impact aid				15,950
ISEP				249,205
Other federal aid				19,429
Restitution				4,968
Miscellaneous				14,452
Total general revenues				811,895
Changes in net position				(207,292)
Net position, beginning of year				983,027
Net position, end of year				\$ 775,735



Twin Buttes School District No. 37  
 Balance Sheet – Governmental Funds – Modified Cash Basis  
 June 30, 2015

	General	Quarters	Total Governmental Funds
Assets			
Cash	\$ 492,295	\$ 132,694	\$ 624,989
Total assets	\$ 492,295	\$ 132,694	\$ 624,989
Fund balances			
Restricted for housing	\$ -	\$ 108,989	\$ 108,989
Assigned for quarters rent	-	23,705	23,705
Unassigned	492,295	-	492,295
Total fund balances	492,295	132,694	624,989
Total liabilities and fund balances	\$ 492,295	\$ 132,694	\$ 624,989

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position – Modified Cash Basis  
 June 30, 2015

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Total Governmental Fund Balances		\$ 624,989
<p>Amounts reported for Governmental Activities in the Statement of Net Position are different because</p> <p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statement, but are reported in the governmental activities of the statement of net position. Those assets consist of</p>		
Cost of capital assets	\$ 195,486	
Less accumulated depreciation	<u>(44,740)</u>	
		<u>150,746</u>
Net position of governmental activities		<u><u>\$ 775,735</u></u>

Twin Buttes School District No. 37

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds – Modified Cash Basis  
Year Ended June 30, 2015

	General	Quarters	Total Governmental Funds
<b>Revenues</b>			
Local sources	\$ 129,333	\$ 23,705	\$ 153,038
State sources	458,235	-	458,235
Federal sources	1,054,589	-	1,054,589
Total revenues	<u>1,642,157</u>	<u>23,705</u>	<u>1,665,862</u>
<b>Expenditures</b>			
Current			
Instruction	756,611	-	756,611
Support services			
Guidance and library services	94,633	-	94,633
Administration services	367,609	-	367,609
Operations and maintenance	213,356	13,990	227,346
Transportation services	245,498	-	245,498
Food services	119,069	-	119,069
Community services	43,181	-	43,181
Student activities	5,361	-	5,361
Capital outlay	58,184	-	58,184
Total expenditures	<u>1,903,502</u>	<u>13,990</u>	<u>1,917,492</u>
Net change in fund balances	(261,345)	9,715	(251,630)
Fund Balance, Beginning of Year	<u>753,640</u>	<u>122,979</u>	<u>876,619</u>
Fund Balance, End of Year	<u>\$ 492,295</u>	<u>\$ 132,694</u>	<u>\$ 624,989</u>

Twin Buttes School District No. 37

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances  
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		\$ (251,630)
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. In the current period, these amounts are		
Capital outlay	\$ 58,184	
Depreciation expense	<u>(13,846)</u>	44,338
Commodities inventory is not a financial resource in governmental funds. Commodities used are reported as expenses and commodities donated are reported as revenue in the statement of activities		
Commodities used		(2,143)
Commodities donated		<u>2,143</u>
Change in net position of governmental activities		<u>\$ (207,292)</u>

Twin Buttes School District No. 37  
Statement of Fiduciary Assets and Liabilities – Agency Fund – Modified Cash Basis  
June 30, 2015

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	<u>Agency Fund</u>
Assets	
Cash	<u>\$ 8,093</u>
Liabilities	
Due to student activities groups	<u>\$ 8,093</u>

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

### **Reporting Entity**

Twin Buttes School District No. 37 (District) operates as a public school for children in grades kindergarten through eight. The District is in Twin Buttes, North Dakota and is comprised of one elementary school with a student body of approximately 40 students. The District is governed by the Twin Buttes School District No. 37 Board of Education which is elected in the general elections.

The accompanying financial statements present the activities of the Twin Buttes School District No. 37. The District has considered all potential component units for which the District is financially accountable and other organizations for which the nature and significance of their relationships with the District such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criterion includes appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District.

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

### **Government-Wide Statements**

The statement of net position and statement of activities display information about the School District. These statements include the financial activities of the overall government, except for fiduciary activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. The effect of interfund activity has been eliminated from the government-wide financial statements.

The statement of net position reports all financial and capital resources, in a net position form (assets minus liabilities equal net position). Net position is displayed in three components, as applicable, net investment in capital assets, restricted (distinguished between major categories of restrictions), and unrestricted.

The statement of activities compares the direct expenses and program revenues for the governmental activities of the District. Direct expenses are clearly identifiable with a specific function. Program revenues consist of operating grants and contributions. General revenues, including taxes, are those revenues that are not classified as program revenue.

### **Fund Financial Statements**

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

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The government-wide and fiduciary fund 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 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. Only capital assets and long-term debt are recorded under the basis of accounting described above and are included on the statement of net position. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The School District reports the following major governmental funds:

General Fund – The general fund is the general operating fund of the School District. All general revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund.

Quarters Fund – The quarters fund is the School District housing maintenance fund. It accounts for all financial resources and uses related to the maintenance of housing located at the school and rented to employees. This fund is presented as a major fund for public interest purposes.

In addition, the School District reports the following fiduciary fund:

The Fiduciary Fund accounts for assets held by the School District in a trustee capacity or as an agent on behalf of others.

Agency Fund – Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds have no equity, assets are equal to liabilities, and do not include revenues and expenditures for general operations of the School District.

### **Equity Classifications**

Equity is classified as net position and is displayed in three components:

Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

Unrestricted net position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets”.

### Restricted and Unrestricted Resources

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 Classifications and Procedures

The School District classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in a 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 and does not lapse at year-end.
- 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 Government does not have a formal minimum fund balance policy.

### Program Revenues

In the government-wide statement of activities, reported program revenues derive directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into two categories, as follows:

1. Charges for services – these arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – these arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.



**Cash and Cash Equivalents**

The School District's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. These amounts must be deposited in a financial institution situated and doing business within North Dakota.

The District had no investments during the year ended June 30, 2015.

**Capital Assets**

Fixed assets, which include property, plant, and equipment, are reported in the applicable governmental columns in the government-wide financial statements. Fixed assets are defined as having an individual cost of \$5,000 or more and have a useful life in excess of one year. Fixed assets are stated at cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Depreciation is computed using the straight-line method over the following estimated useful lives:

Equipment	10-20 years
Vehicles	5-10 years

All buildings used by the School District in its operations are owned by the Bureau of Indian Affairs. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized and instead are a period expense. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The District reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment there was no impairment as of June 30, 2015.

**Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds.

Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

### **Pensions**

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Teachers' Fund for Retirement (TFFR) and additions to/deductions from TFFR's fiduciary net position have been determined on the same basis as they are reported by TFFR. 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 6, is shown as additional information to the users of the financial statements.

### **Budgets**

The School District budget is prepared on the modified cash basis of accounting and the District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Business Manager prepares the District budget under the cash basis of accounting. The budget includes proposed expenditures and the means of financing them. The budget includes the general fund.
2. The School Board reviews the budget, may make revisions and approves it on or before August 15. The budget must be filed with the County Auditor by August 25.
3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared except no amendment changing the taxes levied can be made after October 10.
4. The balance of each appropriation becomes a part of the inappropriate balance at year-end.

For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year.

### **Estimates**

The preparation of the financial statements in conformity with the modified cash basis of accounting 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.

### **Note 2 - Cash and Cash Equivalents**

#### **Deposits**

In accordance with North Dakota Statues, the school 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 of 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.

The bank balance of the pooled District deposits and fiduciary funds at June 30, 2015 was \$729,606. The carrying amount of the deposits was \$633,082, which consisted of District deposits of \$624,989, and agency fund deposits of \$8,093. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$479,606 was collateralized with securities held by the pledging financial institutions' agents in the government's name.

As of June 30, 2015, the District had no investments. Therefore, they are not subject to interest rate risk, credit risk and concentration of credit risk.

### Note 3 - Capital Assets

The following is a summary of changes in capital assets for the year ended June 30, 2015:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Governmental activities				
Capital assets, being depreciated				
Equipment	\$ 124,882	\$ 54,115	\$ 50,225	\$ 128,772
Vehicles	50,049	41,665	25,000	66,714
Total capital assets, being depreciated	<u>174,931</u>	<u>95,780</u>	<u>75,225</u>	<u>195,486</u>
Accumulated depreciation				
Equipment	59,142	9,049	28,879	39,312
Vehicles	9,381	4,797	8,750	5,428
Total accumulated depreciation	<u>68,523</u>	<u>13,846</u>	<u>37,629</u>	<u>44,740</u>
Governmental activities capital assets, net	<u>\$ 106,408</u>	<u>\$ 81,934</u>	<u>\$ 37,596</u>	<u>\$ 150,746</u>

The District does not have any buildings as they are owned by the Bureau of Indian Affairs.

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

Governmental activities	\$ 9,049
Operation and maintenance	4,797
Transportation services	<u>          </u>
Total depreciation expense - governmental activities	<u><u>\$ 13,846</u></u>

**Note 4 - Operating Lease**

The School District had previously entered into an operating lease with MT/WY Dakota States FMC Agency for the purpose of providing buses and other motor vehicles for the District to utilize back in 2007. This agreement with MT/WY Dakota States FMC Agency was renewed during the year becoming effective on March 15, 2013 and is on a month to month payment basis. The District uses the fleet of vehicles provided and pays the Agency based on the amount of miles driven taken by a locked-in monthly rate. The lease has no termination date and is effective until cancelled by either party. The District paid \$85,460 on the operating lease during the year ended June 30, 2015.

The School District entered into a new lease agreement with Advanced Business Methods commencing on November 1, 2014 for the use of a new digital copier. The lease agreement has a term for five years, maturing on November 1, 2019. The School District pays \$193.53 per month over the life of the lease. The table below shows the future maturities of the lease.

	Amount
2016	\$ 2,322
2017	2,322
2018	2,322
2019	2,322
2020	<u>774</u>

**Note 5 - Risk Management**

The District 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 for which the School District carries insurance through the following funds/pools established by the State:

In 1986 state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The District pays an annual premium to NDIRF for its general liability, auto and public asset insurance coverage. The coverage by NDIRF is limited to losses of one million dollars per occurrence. There is no additional liability for the District related to the risk pool as of June 30, 2015.

The District also participates in the North Dakota Fire and Tornado Fund and State Bonding Fund. The District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$302,070 per occurrence during a 12-month period. The State Bonding fund provides political subdivisions with blanket employee fidelity bond coverage in the amount of \$455,000. The State Bonding Fund does not currently charge any premium for this coverage.

The District participates in the North Dakota Workforce Safety and Insurance Fund, an Enterprise Fund of the State of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to the employers. The premiums are available for the payment of claims to employees injured in the course of employment.

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

## **Note 6 - Pension Plan**

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

The District contributes to the North Dakota Teacher's Fund for Retirement (TFFR); a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. TFFR provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with chapter 15-39.1 of the North Dakota Century Code. TFFR issues a publicly available financial report that includes financial statements and required supplementary information for TFFR. That report is located on the following website, [www.nd.gov/rio](http://www.nd.gov/rio), or may be obtained by writing to Teachers' Fund for Retirement, 1930 Burnt Boat Drive, P.O. Box 7100, Bismarck, ND 58507-7100

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.

The School District's contributions to TFFR, for the fiscal years ended June 30, 2015, 2014 and 2013 were \$57,134, \$47,374, and \$47,964, respectively, and were equal to the required contributions for the year.

### **Pension Liabilities and Pension Expense**

#### **Net Pension Liability**

At June 30, 2015, the Employer's proportionate share of the net pension liability was \$796,073. 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. At June 30, 2014, the Employer's proportion was .075974 percent. The Employer's proportionate share of the net pension liability is not reported in financial statements shown under the modified cash basis of accounting.

**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 Rate	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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	57%	7.53%
Global Fixed Income	22%	1.40%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

**Discount Rate**

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

	<u>1% Decrease in Discount Rate (7.00%)</u>	<u>Discount Rate (8%)</u>	<u>1% Increase in Discount Rate (9.00%)</u>
Employer's proportionate share of the net pension liability	\$ 1,074,846	\$ 796,073	\$ 561,616

**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 7 - Economic Dependency**

Twin Buttes School District receives a substantial amount of its support from federal and state governments. A significant reduction in the level of this support, if this were to occur, may have a material effect on the District's programs and therefore on its continued operations.



Supplementary Information  
June 30, 2015

# Twin Buttes School District No. 37

Twin Buttes School District No. 37  
 Budgetary Comparison Schedule -- General Fund  
 Year Ended June 30, 2015

	Original/Final Budget	Actual	Variance with Final Budget
Revenues			
Local sources	\$ -	\$ 129,333	\$ 129,333
State sources	693,317	458,235	(235,082)
Federal sources	1,080,499	1,054,589	(25,910)
Total revenues	<u>1,773,816</u>	<u>1,642,157</u>	<u>(131,659)</u>
Expenditures			
Current			
Instruction	810,804	756,611	54,193
Support services			
Guidance and library services	92,949	94,633	(1,684)
Administration services	334,785	367,609	(32,824)
Operations and maintenance	313,020	213,356	99,664
Transportation services	230,093	245,498	(15,405)
Food services	133,412	119,069	14,343
Community services	62,834	43,181	19,653
Student activities	8,600	5,361	3,239
Capital outlay	-	58,184	(58,184)
Total expenditures	<u>1,986,497</u>	<u>1,903,502</u>	<u>82,995</u>
Net change in fund balances	<u>(212,681)</u>	<u>(261,345)</u>	<u>(48,664)</u>
Fund Balance, Beginning of Year	<u>753,640</u>	<u>753,640</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 540,959</u>	<u>\$ 492,295</u>	<u>\$ (48,664)</u>

Twin Buttes School District No. 37  
 Schedule of Employer's Share of Net Pension Liability – ND Teacher's Fund for Retirement  
 Year Ended June 30, 2015

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Employer's proportion of the net pension liability		0.075974%
Employer's proportionate share of the net pension liability	\$	796,073
Employer's covered employee payroll		440,692
Employer's proportionate share of the net pension liability 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. The information presented above is based on a July 1, 2014 measurement date.

Twin Buttes School District No. 37  
Schedule of Employer Contributions – ND Teacher’s Fund for Retirement  
Year Ended June 30, 2015

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Statutorily required contribution	\$ 57,134
Contributions in relation to the statutorily required contribution	(57,134)
Contribution deficiency (excess)	-
Employer's covered-employee payroll	448,113
Contributions as a percentage of covered employee payroll	12.75%

\* 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.



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  
Twin Buttes School District No. 37  
Halliday, 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 modified cash basis financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Twin Buttes School District No. 37 as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Twin Buttes School District No. 37's basic financial statements, and have issued our report thereon dated December 16, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Twin Buttes School District No. 37'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 Twin Buttes School District No. 37's internal control. Accordingly, we do not express an opinion on the effectiveness of Twin Buttes School District No. 37'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 and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs listed as 2015-A and 2015-C to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs listed as 2015-B to be a significant deficiency.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Twin Buttes School District No. 37's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **Twin Buttes School District No. 37's Responses to Findings**

Twin Buttes School District No. 37's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Twin Buttes School District No. 37'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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Eide Bailly LLP*

Bismarck, North Dakota  
December 16, 2015



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  
Twin Buttes School District No. 37  
Halliday, North Dakota

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

We have audited Twin Buttes School District No. 37'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 Twin Buttes School District No. 37's major federal programs for the year ended June 30, 2015. Twin Buttes School District No. 37'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 Twin Buttes School District No. 37'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 Twin Buttes School District No. 37'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 Twin Buttes School District No. 37's compliance.

**Opinion on Each Major Federal Program**

In our opinion, Twin Buttes School District No. 37 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.



### **Report on Internal Control over Compliance**

Management of Twin Buttes School District No. 37 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 Twin Buttes School District No. 37'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 Twin Buttes School District No. 37'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 did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2015-001, 2015-002, 2015-003, and 2015-004 that we consider to be significant deficiencies.

Twin Buttes School District No. 37's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Twin Buttes School District No. 37's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

*Eide Bailly LLP*

Bismarck, North Dakota  
December 16, 2015

Twin Buttes School District No. 37  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Identifying Number	Expenditures
<b>U.S. Department of Education</b>			
Direct			
EASIE Grant	84.060A	S060A130999	\$ 746
Impact Aid	84.041	S041B-2010-3656	15,902
Passed through Bureau of Indian Affairs			
IDEA B	84.027	A14AV00674	68,335
Title IIA - Teacher Quality Partnership Grants	84.336	A14AV00674	2,089
Grants for State Assessments and Related Activities	84.369	A14AV00674	<u>8,006</u>
Passed through Bureau of Indian Affairs			
Title I Grants to local education agencies	84.010	A14AV00674	17,822
Passed through North Dakota Department of Public Instruction			
Title I Grants to local education agencies	84.010	N/A	52,620
Title I Program Improvement	84.010	1003A	<u>7,568</u>
Total Title I Cluster			<u>78,010</u>
Total U.S. Department of Education			<u>173,088</u>
<b>U.S. Department of Interior</b>			
Passed through Bureau of Indian Affairs			
Indian School Equalization Program	15.042	A14AV00674	277,289
Indian Child and Family Education	15.043	A14AV00674	3,653
Indian School Student Transportation	15.044	A14AV00674	74,860
Administrative Cost Grants for Indian Schools	15.046	A14AV00674	129,750
Indian Education Facilities, Operations and Maintenance	15.047	A14AV00674	294,674
FOCUS on Student Achievement Project	15.149	A14AV00674	62,915
Total U.S. Department of Interior			<u>843,141</u>
<b>U.S. Department of Agriculture</b>			
Passed through North Dakota Department of Public Instruction			
Fresh Fruit and Vegetable Program	10.582	P11009-09	<u>1,035</u>
Child Nutrition Cluster			
School Nutrition - Breakfast	10.553	N/A	9,969
School Nutrition - Lunch	10.555	N/A	16,829
Summer Food Service for Children	10.559	N/A	1,871
Commodity Assistance for Schools (noncash)	10.555	N/A	1,900
Commodity Assistance for Schools (noncash)	10.559	N/A	243
Total Child Nutrition Cluster			<u>30,812</u>
Total U.S. Department of Agriculture			<u>31,847</u>
Total Expenditures of Federal Awards			<u>\$ 1,048,076</u>

**Note A - Basis of Accounting**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Twin Buttes School District No. 37 and is presented using the same basis of accounting as disclosed in Note 1 of the basic financial statements. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States and Local Governments and Nonprofit Organizations*. Twin Buttes School District No. 37 received federal awards both directly from federal agencies and indirectly through pass-through entities. Therefore, some amounts presented in the schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

**Note B - Significant Accounting Policies**

Federal reimbursements and interest income are recognized when received and federal expenditures are recognized when paid. For certain programs shown on the schedule of expenditures of federal awards federal reimbursements are not based upon specific expenditures, the amounts reported here represent cash received rather than federal expenditures.

**Note C - Food Donation**

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2015, the School District had food commodities totaling \$2,143.

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a):	No

**Identification of major programs:**

<u>Name of Federal Program</u>	<u>CFDA number</u>
Indian School Equalization Program	15.042
Indian Education Facilities, Operations and Maintenance	15.047
Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	No

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**Section II – Financial Statement Findings**

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**2015-A Preparation of Financial Statements  
Material Weakness**

**Criteria:** Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

**Condition:** The 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. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

**Cause:** The control deficiency could result in a misstatement in the presentation of the financial statements.

**Effect:** Inadequate controls over financial reporting of the District result in more than a remote likelihood that the District would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

**Recommendation:** While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District and changes in reporting requirements.

**Management Response:** Due to the small size of our District, it is not cost effective for the District to properly address this deficiency.

**2015-B Recording of Transactions**  
**Significant Deficiency**

Criteria: A good system of internal accounting control contemplates proper reconcilments of all general ledger accounts and adjustments of those accounts to the reconciled balances.

Condition: We identified misstatements in the District's financial statements causing us to propose audit adjustments.

Cause: Misstatements to the financial statements could result from inadequate controls over recording of transactions.

Effect: Inadequate internal controls over recording of transactions affect the District's ability to detect misstatements to the financial statements.

Recommendation: While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District.

Management Response: The Business Manager plans to change procedures in the future so that the financial statements will not require adjustment by the auditors.

**2015-C Segregation of Duties**  
**Material Weakness**

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

Condition: The District has a lack of segregation of duties in certain areas due to a limited staff.

Cause: The control deficiency could result in the improper recording of a transaction.

Effect: Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned function.

Recommendation: While we recognize that your office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the District.

Management Response: Due to the small size of our District and the limited staff, the District continues to segregate duties when and where possible to ensure accountability.

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

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**2015-001 U.S. Department of Interior Passed through Bureau of Indian Affairs  
CFDA #15.047  
Indian Education Facilities, Operations and Maintenance**

**Equipment and Real Property Management – Lack of Adequate Equipment Records  
Significant Deficiency in Internal Control over Compliance**

**Criteria:** The School District is required to maintain equipment records for all equipment purchased by the program, to which a physical inventory must be reconciled at least every two years.

**Condition:** The School District does not maintain adequate equipment records by which to reconcile the physical inventory over equipment purchased by the program at least every two years.

**Questioned Costs:** None required to report.

**Effect:** The lack of inventory records and reconciliation results in a lack of certainty regarding disposals, of which a portion of the proceeds may be owed to the Federal agency administering the program.

**Cause:** The School District did not have adequate controls to ensure the physical inventory is being reconciled to a listing of equipment purchased by the program.

**Recommendation:** We recommend the School District implement internal control procedures to ensure appropriate records are being kept and reconciled to the physical inventory count and in the case of any disposals that the appropriate amount of proceeds be remitted to the Federal agency administering the program.

**Corrective Action Plan (CAP)**

1. **Actions Planned in Response to the Finding:** The Business Manager will create a program specific asset listing which will be maintained and compared and reconciled to future physical inventories.
2. **Official Responsible for Ensuring Corrective Action:** Business Manager.
3. **Planned Completion Date for the Corrective Action:** Ongoing

**2015-002 U.S. Department of Interior Passed through Bureau of Indian Affairs  
CFDA #15.042 & #15.047  
Indian School Equalization Program & Indian Education Facilities, Operations and  
Maintenance**

**Reporting - Required Reports were not submitted within a timely manner  
Significant Deficiency in Internal Control over Compliance**

Criteria: Tribally Controlled Schools are required to submit a quarterly Federal Financial Report no later than 30 days after the end of each reporting period.

Condition: The School District did not timely submit the 1<sup>st</sup>, 2<sup>nd</sup>, and 4<sup>th</sup> quarter SF-425 Federal Financial Reports.

Questioned Costs: None required to report.

Effect: This results in a lack of data reported to funding agencies which could lead to incorrect funding of the federal programs.

Cause: The School District does not have adequate controls to ensure the Federal Financial Report is being completed and submitted in a timely manner.

Recommendation: We recommend the School District implement internal control procedures to ensure reports are submitted timely.

**Corrective Action Plan (CAP)**

1. Actions Planned in Response to the Finding: The Business Manager has set up a monthly list of duties in effort to ensure that all reports are submitted in a timely manner.
2. Official Responsible for Ensuring Corrective Action: Business Manager.
3. Planned Completion Date for the Corrective Action: Ongoing



**2015-003 U.S. Department of Interior Passed through Bureau of Indian Affairs  
CFDA #15.047  
Indian Education Facilities, Operations and Maintenance**

**Allowable Costs & Activities – Expenditures are being approved after the Funds are expended rather than before.**

**Significant Deficiency in Internal Control over Compliance**

**Criteria:** The School District's control procedures require a requisition form and purchase order to be approved prior to purchasing products/services.

**Condition:** Fourteen of sixty program expenditures tested were not properly approved within the School District's purchasing policy.

**Questioned Costs:** None required to report.

**Effect:** This could lead to unauthorized purchases and improper use of program funds.

**Cause:** Requisition forms and purchase orders are not being completed or being approved after the products/services are delivered.

**Recommendation:** We recommend the School District enforce internal control procedures to prevent the purchase of products/services prior to authorization.

**Corrective Action Plan (CAP)**

1. **Actions Planned in Response to the Finding:** The School District will no longer pay for purchases that did not go through the proper approval process. The School District will also modify the purchasing policy to allow subsequent approval for items that is not practicable to approve prior to the purchase. In addition, the department heads will be taking responsibility for filling out the purchase requisitions and they will not be approved unless they are completely filled out.

2. **Official Responsible for Ensuring Corrective Action:** Business Manager.

3. **Planned Completion Date for the Corrective Action:** Ongoing

**2015-004 U.S. Department of Interior Passed through Bureau of Indian Affairs  
CFDA #15.047  
Indian Education Facilities, Operations and Maintenance**

**Allowable Costs & Activities – Unauthorized expenditure  
Significant Deficiency in Internal Control over Compliance**

Criteria: The School District requires a close-out travel form to reconcile pre-paid budgeted travel expenses to actual travel expenses to make sure the proper amounts are being paid out.

Condition: Close out travel form was not completed or properly retained for one of the prepaid budgeted travel expenses.

Questioned Costs: None required to report.

Effect: This could lead to unauthorized purchases and improper use of program funds.

Cause: One of the expenditures that required a close-out travel form was either not completed or missing from the School District's files.

Recommendation: We recommend the School District implement a tracking process for employee travel to prevent travel purchases that have not been expended.

**Corrective Action Plan (CAP)**

1. Actions Planned in Response to the Finding: Judy will be taking on the responsibility for ensuring that employees turn in their close-out travel forms by creating a spreadsheet to track employee travel. In addition, the School District will also modify the travel policy to allow a percentage of travel expenses up front rather than the full expected amount to encourage employees to get their close-out forms in and get paid.
2. Official Responsible for Ensuring Corrective Action: Business Manager.
3. Planned Completion Date for the Corrective Action: Ongoing

**2014-001 U.S. Department of Interior Passed through Bureau of Indian Affairs  
CFDA #15.042 & #15.047  
Indian School Equalization Program & Indian Education Facilities, Operations and  
Maintenance**

**Reporting - Required Reports were not submitted within a timely manner  
Material Weakness in Internal Control over Compliance and Material Non-Compliance**

Criteria: Tribally Controlled Schools are required to submit a quarterly Federal Financial Report which provides information related to federal monies expended and received. All reports submitted should be supported with the accounting records and the School District should maintain records of the supporting documentation.

Condition: The School District did not submit the 4<sup>th</sup> quarter SF-425 Federal Financial Report.

Questioned Costs: None required to report.

Effect: This can result in a lack of data reported to funding agencies which could lead to incorrect funding of the federal programs.

Cause: The School District does not have adequate controls to ensure the Federal Financial Report is being completed and submitted in a timely manner.

Recommendation -- We recommend the School District implement internal control procedures to ensure reports are submitted.

Status: This is a repeat finding during the current year.

**2014-002 U.S. Department of Interior Passed through Bureau of Indian Affairs  
CFDA #15.047  
Indian Education Facilities, Operations and Maintenance**

**Equipment and Real Property Management – Lack of Adequate Equipment Records  
Significant Deficiency in Internal Control over Compliance**

Criteria: The School District is required to maintain equipment records for all equipment purchased by the program, to which a physical inventory must be reconciled at least every two years.

Condition: The School District does not maintain adequate equipment records by which to reconcile the physical inventory over equipment purchased by the program at least every two years.

Questioned Costs: None required to report.

Effect: The lack of inventory records and reconciliation results in a lack of certainty regarding disposals, of which a portion of the proceeds may be owed to the Federal agency administering the program.

Cause: The School District did not have adequate controls to ensure the physical inventory is being reconciled to a listing of equipment purchased by the program.

**Recommendation:** We recommend the School District implement internal control procedures to ensure appropriate records are being kept and reconciled to the physical inventory count and in the case of any disposals that the appropriate amount of proceeds be remitted to the Federal agency administering the program.

**Status:** This is a repeat finding during the current year.

**2014-003 U.S. Department of Interior Passed through Bureau of Indian Affairs  
CFDA #15.047  
Indian Education Facilities, Operations and Maintenance**

**Allowable Costs & Activities – Expenditures are being approved after the Funds are expended rather than before.**

**Significant Deficiency in Internal Control over Compliance**

**Criteria:** The School District's control procedures require a requisition form and purchase order to be approved prior to purchasing products/services.

**Condition:** 8 of the 60 program expenditures were approved after the funds were expended rather than before.

**Questioned Costs:** None required to report.

**Effect:** This could lead to unauthorized purchases and improper use of program funds.

**Cause:** Requisition forms and purchase orders are being approved after the products/services are delivered.

**Recommendation:** We recommend the School District enforce internal control procedures to prevent the purchase of products/services prior to authorization.

**Status:** This is a repeat finding during the current year.