

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

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**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
ROSTER OF SCHOOL OFFICIALS
JUNE 30, 2014**

Heide Delorme	President
Scott Halvorson	Vice-President
Lawrence King	Board Member
Matt Sagsveen	Board Member
Karl Lembke	Board Member
Tamara Uselman	Superintendent
Dr. Fran Rodenburg	Assistant Superintendent
Dr. Ben Johnson	Assistant Superintendent
Darin Scherr	Business and Operations Manager



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the School Board
Bismarck Public School District No. 1
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bismarck Public School District No. 1, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Bismarck Public School District No. 1'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 accounting principles generally accepted in the United States of America; this includes 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 Bismarck Public School District No. 1, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

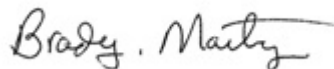
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bismarck Public School District No. 1's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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*, is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 25, 2014 on our consideration of Bismarck Public School District No. 1'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 Bismarck Public School District No. 1's internal control over financial reporting and compliance.



BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

November 25, 2014

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2014**

This Management's Discussion and Analysis (MD&A) of Bismarck Public District No. 1's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2014, with comparative data for the fiscal year ended June 30, 2013.

The intent of the MD&A is to look at the District's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes to the financial statements.

Financial Highlights

Key financial highlights for fiscal year 2013-14 are as follows:

- Net position of the District increased \$6,398,347 as a result of the current year's operations.
- Governmental net position totaled \$113,807,344.
- Total revenues from all sources were \$151,316,034 and total expenditures were \$144,917,687.
- The District's general fund had \$134,048,980 in total revenues and \$133,835,319 in expenditures resulting in an excess of revenues over expenditures of \$213,661 for the year ended June 30, 2014.
- The unassigned general fund balance was \$18,600,263 as of June 30, 2014. This balance represents 13.9% of total general fund expenditures for the year. The unassigned general fund balance increased by \$1,203,325 from July 1, 2013.

Using this Annual Report

This annual report consists of a series of financial statements and related footnotes. These statements are organized so the reader can understand Bismarck Public District No. 1 as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
JUNE 30, 2014**

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did the District do financially during the year ended June 30, 2014?". The Statement of Net Position presents information on all the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Net Position presents information on how the District's net position changed during the fiscal year. This statement is presented using the accrual basis of accounting, which means that all changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused sick leave and vacation leave).

These two statements report the District's net position and changes in those assets. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not.

In the Statement of Net Position and the Statement of Activities, the District reports governmental activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Reporting the District's Most Significant Funds

Balance Sheet - Governmental Funds

The District uses separate funds to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basis financial statements allow the District to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the District's major funds. Using the criteria established by GASB Statement No. 34, only the District's general fund is considered a "major fund." The District's other funds, which are used to account for a multitude of financial transactions, are summarized under the heading "Other Governmental Funds."

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
JUNE 30, 2014**

Financial Analysis of the District as a Whole

Table 1 provides a summary of the District's net position as of June 30, 2014, with comparative data for the fiscal year ended June 30, 2013.

As indicated in the financial highlights, the District's net position increased by \$6,398,347 for the year ended June 30, 2014. Net position may serve over time as a useful indicator of the District's financial position.

The District's net positions are segregated into three separate categories. Net position invested in Capital Assets (net of related debt) represents 41% of the District's entire net position. It should be noted that these assets are not available for future spending. Restricted net position represents 47% of the District's net position. Restricted net position represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted net position represents 12% of the District's net position. The unrestricted net position is available to meet the District's ongoing obligations.

**Table I
Net Position**

	6/30/14	6/30/13
ASSETS		
Current assets (exc. Investment with fiscal agent)	\$ 92,041,481	\$ 46,615,361
Capital assets (net of accumulated depreciation)	141,213,435	104,034,580
Total assets	233,254,916	150,649,941
 LIABILITIES		
Current liabilities (exc. bonds payable, capital lease payable and compensated absences)	14,534,465	12,380,128
Bonds payable	94,508,812	20,560,378
Note payable	7,216,443	7,216,443
Long-term liabilities (exc. Bonds and note payable)	3,187,852	3,083,995
Total liabilities	119,447,572	43,240,944
 NET POSITION		
Net investment in capital assets	46,632,019	76,151,836
Restricted for debt service, capital projects and self funded health insurance	53,031,858	11,106,850
Unrestricted	14,143,467	20,150,311
 TOTAL NET POSITION	 \$ 113,807,344	 \$ 107,408,997

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
JUNE 30, 2014**

Table 2 shows the changes in net position for the fiscal year ended June 30, 2014.

**Table II
Changes in Net Position**

	2013-2014	2012-2013
REVENUES		
Program revenues		
Charges for services	\$ 5,294,148	\$ 5,429,951
Operating grants and contributions	13,156,237	13,891,842
General revenues		
Property taxes	32,715,566	38,544,381
State aid - unrestricted	97,677,133	73,368,741
Interest earnings and miscellaneous revenue	2,472,950	1,887,970
Total revenues	\$ 151,316,034	\$ 133,122,885
	2013-2014	2012-2013
EXPENSES		
Regular instruction	\$ 81,611,722	\$ 76,251,687
Special education	24,425,450	22,955,854
Career and technical education	6,129,520	5,924,285
District wide services	7,183,245	5,715,658
School food services	5,861,260	5,468,370
Operations and maintenance	10,025,464	9,781,422
Student transportation	2,989,671	2,360,675
Co-curricular activities	4,336,886	3,598,489
Other	7,200	976,368
Debt service	2,347,269	633,899
Total expenses	\$ 144,917,687	\$ 133,666,707

Unrestricted state aid constituted 65%, property taxes 22%, operating grants and contributions 9%, and charges for services 3% of the total revenues of governmental activities of the District for fiscal year 2014.

Regular instruction comprised 56%, special education 17%, and career and technical education 4% of total expenditures for governmental activities for fiscal year 2014.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
JUNE 30, 2014**

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

**Table III
Total and Net Cost of Services**

	Year Ended 6-30-14		Year Ended 6-30-13	
	Total Cost	Net Cost	Total Cost	Net Cost
Regular instruction	\$ 81,611,722	\$ 77,856,984	\$ 76,251,687	\$ 71,485,098
Special education	24,425,450	17,972,591	22,955,854	16,152,388
Career and technical education	6,129,520	5,467,318	5,924,285	5,154,284
District wide services	7,183,245	5,894,071	5,715,658	4,603,544
School food services	5,861,260	258,889	5,468,370	172,098
Operations and maintenance	10,025,464	10,025,464	9,781,422	9,781,422
Student transportation	2,989,671	2,989,671	2,360,675	2,360,675
Co-curricular activities	4,336,886	3,818,994	3,598,489	3,100,147
Other	7,200	(163,949)	976,368	901,359
Debt service	2,347,269	2,347,269	633,899	633,899
	<u>\$ 144,917,687</u>	<u>\$ 126,467,302</u>	<u>\$ 133,666,707</u>	<u>\$ 114,344,914</u>
Total expenses	<u>\$ 144,917,687</u>	<u>\$ 126,467,302</u>	<u>\$ 133,666,707</u>	<u>\$ 114,344,914</u>

Financial Analysis of the District's Governmental Funds

The focus of the District's governmental funds is to provide information on the near-term inflows, outflows, and balances of available resources. Unreserved fund balance generally may be used as a measure of the District's net resources available for spending at the end of the fiscal year. These funds are accounted for using the modified accrual basis of accounting. The District's general fund had total revenues of \$134,048,980 and total expenditures of \$133,835,319 for the year ended June 30, 2014. Total governmental funds had total revenues of \$149,756,099 and expenditures of \$185,690,023 for the year ended June 30, 2014.

General Fund Budgeting Highlights

Actual revenues for year ended June 30, 2014 were \$1,173,980 more than the final budget. Revenue from state sources was \$285,483 more than budgeted and revenue from local sources was \$1,962,391 more than budgeted. Revenue from federal sources was \$1,073,894 less than budgeted.

Actual expenditures for the year ended June 30, 2014 were under budget by \$3,539,681. Expenditures for regular instruction were \$4,983,926 less than budgeted and expenditures for special education were \$1,422,286 under budget.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
JUNE 30, 2014**

Capital Assets

As of June 30, 2014, the District had \$141,213,435 invested in capital assets, net of accumulated depreciation. Table 4 shows balances as of June 30, 2014 and 2013:

**Table IV
CAPITAL ASSETS
(Net of Accumulated Depreciation)**

CAPITAL ASSETS	6/30/14	6/30/13
Land	\$ 6,683,567	\$ 7,295,330
Buildings	80,353,346	81,535,087
Furniture and equipment	760,320	537,597
Vehicles and equipment	1,590,160	1,356,798
Improvements other than buildings	4,458,968	3,554,051
Construction in progress	47,367,074	9,755,717
Total capital assets (net of depreciation)	\$ 141,213,435	\$ 104,034,580

Total capital assets (before depreciation) increased from \$154,025,108 to \$194,281,253 during fiscal year 2014. Accumulated depreciation increased by \$3,077,290 from \$49,990,528 to \$53,067,818.

For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 10 of the financial statements.

Debt Administration

The District issued Building Fund Bonds in the amount of \$77,527,818 during the year, which includes a bond premium of \$1,027,818. As of June 30, 2014, the District had \$104,913,107 in long-term debt, of which \$100,731,698 was general obligation bonds. Principal payments of \$5,309,674 are due during the 2014-2015 fiscal year on general obligation bonds. See note 13 for additional information on debt.

For the Future

The Bismarck Public School District and the entire State of North Dakota have continued to experience strong economic growth, mainly due to oil production in the north-western part of the state. For fiscal year 2014, the District's taxable valuation was \$317,595,246 an increase of 14% from 2013. The District's taxable valuation is expected to increase by 13.9% for fiscal year 2015.

On September 18, 2012, district voters approved an \$86,500,000 bond issue to build two new elementary schools and a new high school by a margin of over 85%. Construction was completed on Lincoln Elementary School in time for classes to begin in January 2014. Liberty Elementary School in north Bismarck was completed in time for the start of the new school year in the fall of 2014. Construction on Legacy High School has begun with occupancy expected for the fall of 2015. These additional schools are needed due to an increase of over 359 students on the first day of the 2014-15 school year.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
JUNE 30, 2014**

The District has seventeen elementary schools for the 5,891 students who were enrolled in grades kindergarten through fifth on the first day of the 2014-15 school year. This was an increase of 212 elementary-aged students from the beginning of the 2013-14 school year.

The District's secondary students are enrolled in three middle schools covering grades 6-8, two high schools for freshmen through seniors, one alternative high school for students over the age of 16 and the start of the District's third high school which enrolled 9th and 10th grade students in the fall of 2014 as it prepares for its opening in the fall of 2015.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Bismarck Public District No. 1's finances and to show the District's accountability for the money it receives to provide the best possible education to all students enrolled in the Bismarck District. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Darin M. Scherr, Business and Operations Manager, Bismarck Public Schools, 806 N Washington St., Bismarck, ND 58501; phone 701-323-4057, fax 701-323-4001, or email darin_scherr@bismarckschools.org.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS

Current assets

Cash	\$ 31,833,380
Cash - restricted	47,441,656
Investments	7,650,908
Accounts receivable	328,332
Taxes receivable	983,511
Intergovernmental receivable	2,213,562
Due from county treasurer	1,475,199
Inventory	114,933

Total current assets	<u>92,041,481</u>
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Capital assets

Non-depreciable

Land	6,683,567
Construction in process	47,367,074

Depreciable, net of accumulated depreciation

Buildings	80,353,346
Furniture and equipment	760,320
Vehicles and equipment	1,590,160
Improvements other than buildings	4,458,968

Total capital assets, net of depreciation	<u>141,213,435</u>
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TOTAL ASSETS

233,254,916

LIABILITIES

Current liabilities

Accounts, salaries and benefits payable	11,952,449
Incurred but not reported claims	1,115,555
Interest payable	667,414
Unearned health insurance premiums	799,047

Long-term liabilities due within one year

Bonds payable	5,361,065
Note payable	336,912
Capital lease payable	35,270
Compensated absences payable	300,000

Total current liabilities	<u>20,567,712</u>
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Long-term liabilities

Long-term liabilities due after one year

Bonds payable	89,147,747
Note payable	6,879,531
Capital lease payable	37,334
Compensated absences payable	2,815,248

Total long-term liabilities	<u>98,879,860</u>
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TOTAL LIABILITIES

119,447,572

NET POSITION

Net investment in capital assets	46,632,019
Restricted	53,031,858
Unrestricted	14,143,467

TOTAL NET POSITION

\$ 113,807,344

See Notes to the Financial Statements

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	
GOVERNMENTAL ACTIVITIES				
Regular instruction	\$ 81,611,722	\$ 460,426	\$ 3,294,312	\$ (77,856,984)
Special education	24,425,450	675,578	5,777,281	(17,972,591)
Career and technical education	6,129,520	-	662,202	(5,467,318)
District wide services	7,183,245	-	1,289,174	(5,894,071)
School food services	5,861,260	3,640,252	1,962,119	(258,889)
Operations and maintenance	10,025,464	-	-	(10,025,464)
Transportation	2,989,671	-	-	(2,989,671)
Co-curricular activities	4,336,886	517,892	-	(3,818,994)
Other	7,200	-	171,149	163,949
Interest - unallocated	2,294,088	-	-	(2,294,088)
Bond service charges and costs	53,181	-	-	(53,181)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 144,917,687	\$ 5,294,148	\$ 13,156,237	(126,467,302)

GENERAL REVENUES

Taxes	
Property taxes, levied for general purposes	23,084,363
Property taxes, levied for building purposes	3,149,617
Property taxes, levied for debt services	6,481,586
Unrestricted state aid	97,677,133
Unrestricted investment earnings	41,499
Miscellaneous revenue	2,431,451
TOTAL GENERAL REVENUES	132,865,649
Change in net position	6,398,347
Net position - beginning	107,408,997
Net position - ending	\$ 113,807,344

See Notes to the Financial Statements

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 22,869,327	\$ 3,101,748	\$ 2,111,689	\$ 28,082,764
Cash - restricted	138,365	47,303,291	-	47,441,656
Investments	3,855,733	5,560	2,386,817	6,248,110
Accounts receivable	328,332	-	-	328,332
Taxes receivable	728,345	90,666	164,500	983,511
Intergovernmental receivable	2,134,238	-	79,324	2,213,562
Due from county treasurer	1,044,439	142,811	287,949	1,475,199
Due from other funds	69,996	-	-	69,996
Inventory	-	-	114,933	114,933
TOTAL ASSETS	<u>\$ 31,168,775</u>	<u>\$ 50,644,076</u>	<u>\$ 5,145,212</u>	<u>\$ 86,958,063</u>
LIABILITIES				
Accounts, salaries and benefits payable	\$ 9,496,749	\$ 2,235,718	\$ 219,982	\$ 11,952,449
Due to other funds	<u>2,205,053</u>	<u>-</u>	<u>69,996</u>	<u>2,275,049</u>
TOTAL LIABILITIES	11,701,802	2,235,718	289,978	14,227,498
DEFERRED INFLOWS OF RESOURCES				
Delinquent taxes	<u>728,345</u>	<u>90,666</u>	<u>164,500</u>	<u>983,511</u>
FUND BALANCES				
Nonspendable	-	-	114,933	114,933
Restricted	138,365	48,317,692	4,575,801	53,031,858
Unassigned	<u>18,600,263</u>	<u>-</u>	<u>-</u>	<u>18,600,263</u>
TOTAL FUND BALANCES	<u>18,738,628</u>	<u>48,317,692</u>	<u>4,690,734</u>	<u>71,747,054</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 31,168,775</u>	<u>\$ 50,644,076</u>	<u>\$ 5,145,212</u>	<u>\$ 86,958,063</u>

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total fund balances - governmental funds		\$ 71,747,054
Total net position reported for government activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of capital assets	194,281,253	
Less accumulated depreciation	<u>(53,067,818)</u>	
Net capital assets		141,213,435
Property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred inflows of resources in the funds.		
		983,510
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. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities both current and long-term are reported in the statement of net position.		
Balances at June 30, 2014 are:		
Bonds payable	(94,508,812)	
Notes payable	(7,216,443)	
Capital lease payable	(72,604)	
Interest payable	(667,414)	
Compensated absences	<u>(3,115,248)</u>	
Total long-term liabilities		(105,580,521)
Internal service funds are used by the school to charge the costs of health insurance to departments. The assets and liabilities of internal service fund are included in the governmental activities in the statement of net position.		
		<u>5,443,865</u>
Total net position of governmental activities		<u><u>\$ 113,807,344</u></u>

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Local sources	\$ 26,622,839	\$ 3,150,559	\$ 10,021,689	\$ 39,795,087
State sources	97,605,865	-	455,267	98,061,132
Federal sources	9,820,276	-	1,792,076	11,612,352
Miscellaneous	-	-	287,528	287,528
TOTAL REVENUES	134,048,980	3,150,559	12,556,560	149,756,099
EXPENDITURES				
Current				
Regular instruction	75,316,378	-	-	75,316,378
Special education	24,373,814	-	-	24,373,814
Career and technical education	5,207,641	-	679,384	5,887,025
District wide services	6,955,886	-	-	6,955,886
School food services	-	-	5,639,323	5,639,323
Operations and maintenance	10,488,340	-	-	10,488,340
Transportation	3,121,997	-	-	3,121,997
Co-curricular activities	4,393,709	-	-	4,393,709
Debt Service				
Principal	33,320	155,403	3,423,980	3,612,703
Interest	5,176	107,480	1,687,623	1,800,279
Service charges	-	49,360	3,819	53,179
BSC Community Bowl	-	7,200	-	7,200
Capital outlay	3,939,058	39,729,130	372,002	44,040,190
TOTAL EXPENDITURES	133,835,319	40,048,573	11,806,131	185,690,023
Excess of revenues over (under) expenditures	213,661	(36,898,014)	750,429	(35,933,924)
OTHER FINANCING SOURCES (USES)				
Proceeds from long term debt	-	76,500,000	-	76,500,000
Proceeds from sale of capital asset	-	1,501,904	17,485	1,519,389
Premium on bonds issued	-	1,027,818	-	1,027,818
Transfers in	-	-	88,285	88,285
Transfers out	-	(88,285)	-	(88,285)
TOTAL OTHER FINANCING SOURCES (USES)	-	78,941,437	105,770	79,047,207
Net change in fund balances	213,661	42,043,423	856,199	43,113,283
Fund balances - beginning	18,524,967	6,274,269	3,834,535	28,633,771
Fund balances - ending	<u>\$ 18,738,628</u>	<u>\$ 48,317,692</u>	<u>\$ 4,690,734</u>	<u>\$ 71,747,054</u>

See Notes to the Financial Statements

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Net change in fund balances - total governmental funds		\$ 43,113,283
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 with a cost greater than \$5,000 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 capital outlay (over \$5,000)	40,305,151	
Current year depreciation expense	<u>(3,119,052)</u>	37,186,099
Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the loss on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the cost of the asset sold.		
		(7,243)
Governmental funds report debt proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of bonds payable as a liability.		
		(77,527,818)
Repayment of debt principal and capital lease payable is an expenditure in the governmental fund, but repayment reduces long-term liabilities in the statement of net position.		
		3,612,703
Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.		
Net increase in compensated absences	(137,176)	
Net increase in interest payable	<u>(493,809)</u>	(630,985)
Some revenues reported on the Statement of Activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of the net increase in taxes receivable.		
		(288,892)
Internal service funds are used by the school to charge the costs of health insurance to departments. The net revenue of activities of the internal service fund is reported with governmental activities.		
		<u>941,200</u>
Change in net position of governmental activities		<u>\$ 6,398,347</u>

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2014

	<u>Internal Service Fund Insurance</u>
ASSETS	
Current assets	
Cash	\$ 3,750,614
Investments	1,402,800
Due from other funds	<u>2,205,053</u>
Total current assets	<u>7,358,467</u>
LIABILITIES	
Current liabilities	
Incurred but not reported claims	1,115,555
Unearned health insurance premiums	<u>799,047</u>
Total current liabilities	<u>1,914,602</u>
NET POSITION	
Unrestricted	<u><u>\$ 5,443,865</u></u>

See Notes to the Financial Statements

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Internal Service Funds Insurance</u>
Operating revenues	
Contributions to self-insurance district	\$ 14,553,186
Contributions to self-insurance cobra	84,039
Rebates	<u>71,377</u>
Total operating revenues	<u>14,708,602</u>
 Operating expenses	
Health insurance claims	<u>13,767,403</u>
 Change in net position	 <u>941,199</u>
 Total net position - beginning of year	 <u>4,502,666</u>
 Total net position - end of year	 <u><u>\$ 5,443,865</u></u>

See Notes to the Financial Statements

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Internal Service Fund Insurance</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from district - current premiums	\$ 14,553,186
Received from COBRA premiums	84,039
Rebates received	71,377
Payments for health insurance claims	<u>(16,354,119)</u>
Net cash provided (used) by operating activities	<u>(1,645,517)</u>
 NET CHANGE IN CASH AND CASH EQUIVALENTS	 (1,645,517)
 CASH AND CASH EQUIVALENTS - BEGINNING	 <u>5,396,131</u>
 CASH AND CASH EQUIVALENTS - ENDING	 <u><u>\$ 3,750,614</u></u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 941,199
Effect on cash flows due to changes in changes in assets and liabilities:	
Accounts payable	(2,260)
Due to / from other funds	(2,877,346)
Incurred by not reported claims	227,556
Unearned health insurance premiums	<u>65,334</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 <u><u>\$ (1,645,517)</u></u>

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS
JUNE 30, 2014

	TLC	Student Activities	MREC	Total
ASSETS				
Cash and cash equivalents	\$ 4,886	\$ 368,295	\$ 391,733	\$ 764,914
Investments	40,000	461,044	50,000	551,044
Intergovernmental receivables	-	-	195,133	195,133
	<u>44,886</u>	<u>829,339</u>	<u>636,866</u>	<u>1,511,091</u>
Total assets	<u>\$ 44,886</u>	<u>\$ 829,339</u>	<u>\$ 636,866</u>	<u>\$ 1,511,091</u>
LIABILITIES				
Accounts, salaries and benefits payable	\$ 727	\$ 113,073	\$ 61,719	\$ 175,519
Due to consortium participants	44,159	-	575,147	619,306
Due to student activities groups	-	716,266	-	716,266
	<u>44,886</u>	<u>829,339</u>	<u>636,866</u>	<u>1,511,091</u>
Total liabilities	<u>\$ 44,886</u>	<u>\$ 829,339</u>	<u>\$ 636,866</u>	<u>\$ 1,511,091</u>

See Notes to the Financial Statements

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

The Bismarck Public School District No. 1 (District) operates the public schools in the city of Bismarck, North Dakota. There are seventeen elementary schools, three middle schools, three senior high schools, an alternative high school, a career academy, technical center, and an early childhood center. Two of these schools are under construction, see note 21 for further details.

Reporting Entity – The accompanying financial statements present the activities of the Bismarck Public School District No. 1. 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 criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the Bismarck Public School District No. 1 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 Bismarck Public School District No. 1.

Based on these criteria, there are no component units to be included within the Bismarck Public School District No. 1 as a reporting entity.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of Presentation

The District's basic financial statements consist of government-wide statements and fund financial statements.

Government-Wide Financial Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014

Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide financial statements do not include fiduciary funds.

Fund Financial Statements:

In order to aid financial management and to demonstrate legal compliance, the District segregates transactions related to certain functions or activities in separate funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The focus of the governmental fund financial statements is on major funds. Each major fund is presented as a separate column in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. The fiduciary fund is reported by type.

Fund accounting – The District’s funds consist of the following:

Governmental Funds – Governmental funds are utilized to account for most of the District’s governmental functions. The reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which the obligation will be paid. Fund balance represents the difference between the governmental fund assets and liabilities. The District’s major governmental funds are as follows:

General fund – This fund is the general operating fund of the District. It accounts for all financial resources except those required to be accounted for in another fund.

Building fund – This fund accounts for the financial resources related to the capital outlays made by the District.

Additionally, the District reports the following governmental fund types that are included in non-major funds:

Special Revenue funds – These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service funds – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Proprietary Funds – The reporting focus of proprietary funds is on the determination of net income, financial position and changes in financial position (economic resources). These funds are used to account for activities which are similar to those found in the private sector. The funds are maintained on the accrual basis of accounting.

Internal Service – The reporting focus of internal service funds is on services provided by one fund of the District to another fund on a cost reimbursement basis. The District’s only internal service fund consists of the following:

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014

Self-funded Health Insurance Fund – The fund accounts for the financial transactions related to the District's self-funded health insurance plan.

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

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

TLC – The Teacher Learning Center is managed by an independent board and is not under the control of the Bismarck School Board. The Bismarck School District serves as the fiscal agent for the TLC.

MREC – The Missouri River Education Cooperative is managed by an independent board and is not under the control of the Bismarck School Board. The Bismarck School District serves as the fiscal agent for the MREC.

Measurement Focus and Basis of Accounting

Measurement Focus

Government-wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included in the Statement of Net Position.

Fund Financial Statements:

The governmental funds are accounted for using a flow of current financial resources measurement focus. Under this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance reports on the sources and uses of current financial resources.

The current financial resources measurement focus differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Due to the difference, the District's financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for government funds. Fiduciary funds also use the economic resources measurement focus.

Basis of Accounting

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

Government-wide financial statements are prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014

District's internal service fund also uses the accrual basis of accounting. The District's governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenues to be available if they are collected within 60 days of the end of its fiscal year. Expenditures are generally recorded as the related fund liability is incurred.

Revenues-Exchange and Non-Exchange Transactions

Exchange transactions are transactions in which each party gives and receives essentially equal value. Under the accrual basis of accounting, revenue for exchange transactions is recorded when the exchange takes place. Under the modified accrual basis of accounting, revenue for exchange transactions is recorded when the resources are measurable and available.

Non-exchange transactions include transactions in which the District receives value without directly providing value in return. Non-exchange transactions include property taxes, grants, entitlements, and donations.

Under the accrual basis of accounting, property taxes are recorded as revenue in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recorded in the fiscal year in which all eligibility requirements have been satisfied. Under the modified accrual basis of accounting, revenue from non-exchange transactions must also be available before it is recorded in the financial records of the District.

Major revenue sources susceptible to accrual include: property taxes, intergovernmental revenues and investment income.

Cash and Cash Equivalents

The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are recorded at fair value. North Dakota state statute authorizes school districts to invest their surplus funds in: a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentality's, 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 of the type listed above, c) Certificates of Deposit fully insured by Federal Deposit Insurance Corporation of the state, d) Obligations of the state.

Inventories

Inventories are valued using the weighted-average method. The cost of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014

Capital Assets

Capital assets include property and equipment. Assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the 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. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset 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 of the following estimated useful lives:

Buildings	20-50 Years
Furniture and equipment	5-12 Years
Vehicles and equipment	10-15 Years
Improvements	10-30 Years

Compensated Absences

Vested or accumulated vacation leave is reported in government-wide statements of net position. Compensation for unused vacation leave will be granted to all full-time administrators, professional non-certified staff, and hourly support staff upon termination with the District. Twelve month, full-time employees may carry forward unused vacation not to exceed 20 days. Eleven month administrators may carry up to 19 days of vacation leave forward. Teachers and non-certified staff working less than 12 months will be able to carry forward five personal days.

Compensation for unused sick leave will be granted to all administrators, teachers, non-certified professional staff, and hourly support staff if they have 10 or more years of service upon termination from the District. The severance payment is based on \$30.00 per day for administrators, \$25.00 per day for teachers and non-certified professional staff, and \$20.00 per day for hourly support staff for each day of unused sick leave not to exceed \$3,000.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are amortized over the life of the bond. Issuance costs are reported as expenditures.

In fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Insurance costs are reported as debt service expenditures.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of the remaining un-depreciated cost of the asset less the outstanding debt associated with the purchase or construction of the related asset.

Net position is reported as restricted when external creditors, grantors, or other governmental organizations imposed specific restrictions on the District. External restrictions may be imposed through state or local laws, and grant or contract provisions. Restricted net position includes: amounts restricted for debt service, capital projects and self funded health insurance.

Fund Balance Classifications

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form - inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the school board-the District's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification reflects the amounts constrained by the District's "intent" to be used for specific purposes, but are neither restricted nor committed. The school board and superintendent have the authority to assign amounts to be used for specific purposes.

Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, the District's preference is to first use restricted resources, then unrestricted resources - committed, assigned, and unassigned - in order as needed.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014

The school board has set a General Fund minimum fund balance target at 10% of expenditures and recurring transfers.

Interfund Transactions

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

All other interfund transactions, except reimbursements, are reported as transfers. In the government-wide financial statements, interfund transactions have been eliminated.

Budgets and Budgetary Accounting

The District's board adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States for the general fund.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- The annual budget must be prepared and District taxes must be levied on or before the 15th day of August of each year.
- The taxes levied must be certified to the county auditor by October 10th.
- The operating budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the business and operations manager at the revenue and expenditure function/object level.
- The current budget, except property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.
- All appropriations lapse at year-end.

Delinquent Taxes

Receivables, such as taxes receivable, may be measureable but not available. Available means collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported delinquent taxes are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenses and Expenditures

Governmental funds accounting measurement focus is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recorded in the fiscal year in which the related fund liability is incurred. Under the accrual basis of accounting, expenses are recorded when incurred.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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.

As discussed in note 15, the District has established a self-funded health insurance plan. Because of the inherent uncertainties associated with estimating the accrued liability for claims, it is at least reasonably possible that the estimate used will change within the near term.

Revenue Recognition - Property Taxes / Proprietary Fund

As of June 30, 2014, taxes receivable consists of current and delinquent uncollected taxes for the past five years.

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

Property tax revenue in the governmental funds is recognized in compliance with National Council of Government Accounting (NCGA) Interpretation 3, "Revenue Recognition – Property Taxes". This interpretation states that property tax revenue is recorded when it becomes available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Property tax revenue is recorded as revenue in the year the tax is levied in the government – wide financial statements. Property taxes are limited by state laws. All district tax levies are in compliance with state laws.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges to other funds for health insurance premiums. Operating expenses for the internal service fund include the cost of claims and related administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expense.

NOTE 3 DEPOSITS AND INVESTMENTS

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

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

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014

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, 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.

Custodial Credit Risk

At year ended June 30, 2014, the District's carrying amount of deposits was as follows:

Governmental funds	\$ 75,524,422
Internal service fund	3,750,614
Agency funds	<u>764,914</u>
 Total deposits	 <u><u>\$ 80,039,950</u></u>

The bank balance of these deposits as of June 30, 2014 was \$95,456,674. The difference results from checks outstanding or deposits not yet processed. Of the bank balances, \$750,000 is covered by FDIC (Federal Deposit Insurance Corporation), \$85,276,990 is collateralized with securities held by the pledging financial institutions' agent in the District's name and \$9,429,684 is uncollateralized and exposed to custodial credit risk.

Credit Risk and Interest Rate Risk

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

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

The investments of the District consist of an investment in the MBBM investment pool. The MBBM investment pool was undertaken through a joint powers agreement with the City of Bismarck, City of Mandan, Morton County, Burleigh County, Bismarck Park District, Mandan Park District, and Mandan Public School District. The pool invests in securities authorized by State Statutes. At June 30, 2014 the school's portion of MBBM had a fair value of \$8,201,953.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014

At June 30, 2014, the following table shows the investments by investment type and maturity.

<u>Investment Type</u>	<u>Total Fair Value</u>	<u>Less Than 1 Year</u>	<u>1-6 Years</u>
US Treasury bonds	\$ 5,178,929	\$ 101,188	\$ 5,077,741
Federal National Mortgage Association Agency bond	<u>3,016,381</u>	<u>126,722</u>	<u>2,889,659</u>
Total debt investments	8,195,310	<u>\$ 227,910</u>	<u>\$ 7,967,400</u>
Investments not subject to categorization:			
<u>Cash</u>	<u>6,643</u>		
Total investments	<u>\$ 8,201,953</u>		

Credit Risk

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. The District does not have an investment policy that specifically addresses credit risk. The following table represents the District's ratings as of June 30, 2014.

<u>S&P Credit Rating</u>	<u>Total Fair Value</u>	<u>Government Bonds</u>
AAA	<u>\$ 8,201,953</u>	<u>\$ 8,201,953</u>
Total credit risk		
Debt securities	<u>\$ 8,201,953</u>	<u>\$ 8,201,953</u>

NOTE 4 TAXES RECEIVABLE

Taxes receivable consists of the following as of June 30, 2014:

<u>Property Tax Receivable:</u>	
General fund	\$ 728,345
Building fund	90,666
Other governmental funds	164,500
	<u>\$ 983,511</u>

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014

NOTE 5 ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts on open account from other School districts and organizations for goods and services furnished by the District. Management has deemed all receivables to be collectable; therefore no allowance for doubtful accounts has been set up.

NOTE 6 INTERGOVERNMENTAL RECEIVABLE

Intergovernmental receivables consist of reimbursements due for expenses in the operation of various school programs. These amounts consist of a mix of State and Federal dollars.

NOTE 7 DUE FROM COUNTY TREASURER

The amount due from county treasurer consists of the cash on hand for taxes collected but not remitted to the District at June 30.

NOTE 8 DUE TO/FROM OTHER FUNDS

The due to and from other funds as of June 30, 2014 represent year end transfers. The transfers with the Internal Service Fund for Insurance are for the July August and September health, dental and vision insurance premiums on teachers, non-certified professional staff and hourly support staff working less than 12 months. The transfers with the nonmajor governmental funds are for cash deficits. The amounts are as follows:

	Due to Fund		
Due From Fund	General fund	Proprietary Fund: Internal Service Funds Insurance	Total
General Fund	\$ -	\$ 2,205,053	\$ 2,275,049
Nonmajor governmental funds	<u>69,996</u>	<u>-</u>	<u>69,996</u>
	<u>\$ 69,996</u>	<u>\$ 2,205,053</u>	<u>\$ 2,345,045</u>

NOTE 9 INVENTORIES

Inventories consist of supplies for the food service fund. Reported inventories are equally offset by a nonspendable fund balance which indicates they do not constitute "available spendable resources" even though they are a component of net current assets.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014

NOTE 10 CAPITAL ASSETS

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

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated				
Land	\$ 7,295,330	\$ -	\$ 611,764	\$ 6,683,566
Construction in progress	9,755,717	37,611,358	-	47,367,075
Total capital assets, not depreciated	<u>17,051,047</u>	<u>37,611,358</u>	<u>611,764</u>	<u>54,050,641</u>
Capital assets, being depreciated				
Buildings	126,391,128	1,292,174	-	127,683,302
Improvements other than buildings	6,016,089	1,191,099	-	7,207,188
Furniture and equipment	2,019,650	421,147	-	2,440,797
Vehicles and equipment	2,547,194	401,137	49,006	2,899,325
Total capital assets, being depreciated	<u>136,974,061</u>	<u>3,305,557</u>	<u>49,006</u>	<u>140,230,612</u>
Less accumulated depreciation for				
Buildings	44,856,041	2,473,915	-	47,329,956
Improvements other than buildings	2,462,038	286,182	-	2,748,220
Furniture and equipment	1,482,053	160,532	-	1,642,585
Vehicles and equipment	1,190,396	198,424	41,763	1,347,057
Total accumulated depreciation	<u>49,990,528</u>	<u>3,119,053</u>	<u>41,763</u>	<u>53,067,818</u>
Total capital assets being depreciated, net	<u>86,983,533</u>	<u>186,504</u>	<u>7,243</u>	<u>87,162,794</u>
Governmental activities capital assets, net	<u>\$ 104,034,580</u>	<u>\$ 37,797,862</u>	<u>\$ 619,007</u>	<u>\$ 141,213,435</u>

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

Governmental activities	
Elementary Instruction Depreciation	\$ 764,400
Middle School Depreciation	783,398
Senior High Depreciation	599,298
Special Education Depreciation	51,635
Vocational Depreciation	285,942
District Wide Services Depreciation	90,183
Food Service Depreciation	34,621
Operations & Maintenance Depreciation	385,503
Transportation Depreciation	106,883
Student Activities Depreciation	17,190
Total depreciation expense - governmental activities	<u>\$ 3,119,053</u>

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014

As of June 30, 2014, Equipment capitalized under a capital lease and the accumulated depreciation is as follows.

Capitalized leased equipment	\$ 103,750
Less accumulated depreciation	(62,250)
	\$ 41,500

NOTE 11 ACCOUNTS, SALARIES AND BENEFITS PAYABLE

Accounts, salaries and benefits payable consists of amounts owed for goods and services received prior to June 30, 2014 and chargeable to the appropriations for the year then ended, but paid subsequent to that date. A detail of accounts, salaries and benefits payable is as follows as of June 30, 2014:

General Fund:

Accounts payable	\$ 6,788,269
Salaries payable	2,441,079
Benefits payable	267,401
	9,496,749

School Food Services Fund:

Accounts payable	188,377
Salaries payable	7,439
Benefits payable	3,312
	199,128

MRACTC:

Accounts payable	15,372
Salaries payable	5,244
Benefits payable	238
	20,854

Building Fund:

Accounts payable	2,235,718
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Total accounts, salaries and benefits payable	\$ 11,952,449
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NOTE 12 OPERATING LEASES

The District entered into operating leases for office equipment, with monthly payments totaling \$6,894 per month. The leases end at various periods until 2019. During the year the District paid \$72,912 on these leases. Lease obligations for the next five years are as follows:

2015	\$ 82,734
2016	74,006
2017	74,006
2018	43,005
2019	43,005

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014

NOTE 13 LONG-TERM DEBT

Changes in Long-Term Liabilities

During the year ended June 30, 2014, the following changes occurred in liabilities reported in long-term liabilities:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014	Due Within One Year
Compensated absences *	\$ 2,978,072	\$ 137,176	\$ -	\$ 3,115,248	\$ 300,000
Capital lease payable	105,923	-	(33,319)	72,604	35,270
Note payable	7,216,443	-	-	7,216,443	336,912
General obligation bonds	20,515,378	76,500,000	(3,500,123)	93,515,255	5,309,674
Bond premium	-	1,027,818	(34,261)	993,557	51,391
Total	\$ 30,815,816	\$ 77,664,994	\$ (3,567,703)	\$ 104,913,107	\$ 6,033,247

* The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reduction. The general fund is primarily used to liquidate compensated absences.

Debt Outstanding

The obligations under general obligations bonds and capital leases are as follows:

<u>General Obligation Bonds</u>	<u>Outstanding 6/30/14</u>
\$687,000 General Obligation Building Fund Levy Bond of 2003, due in annual installments of \$30,396 to \$45,204 through June 1, 2023, interest at 3.1%. Payments are to be made from the Building Fund.	\$ 361,187
\$8,960,000 General Obligation School Building Refunding Bonds of 2005, due in annual installments of \$500,000 to \$1,100,000 through May 1, 2019, interest at 3.25% to 4.5%. Payments are to be made from the Debt Service Fund.	4,675,000
\$1,650,000 General Obligation Building Fund Bonds of 2001, due in annual installments of \$78,789 to \$102,824 through June 1, 2021, interest at 2.45%. Payments are to be made from the Building Fund.	670,142
\$2,500,000 General Obligation Bonds of 1997, Series B, due in annual installments of \$136,497 to \$162,605 through June 1, 2017, interest at 2.96%. Payments are to be made from the Debt Service Fund.	473,926
\$5,570,000 General Obligation Refunding Bonds of 2009, due in annual installments of \$290,000 to \$775,000 through May 1, 2019, interest at 0.85% to 3.4%. Payments are to be made from the Debt Service Fund.	2,750,000

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014

	Outstanding 6/30/14
\$10,000,000 General Obligation Building Fund Bonds of 2012, due in annual installments of \$460,000 to \$640,000 through May 1, 2032, interest at 1.0% to 2.25%. Payments are to be made from the Building Fund.	\$ 9,540,000
\$61,500,000 General Obligation School Building Bonds of 2013, due in annual installments of \$1,455,000 to \$4,280,000 through May 1, 2033, interest at 1.5% to 4.125%. Payments are to be made from the Debt Service Fund. Includes premium of \$993,557.	61,038,557
\$15,000,000 General Obligation School Building Bonds of 2014, due in annual installments of \$591,951 to \$932,387 through June 1, 2034, interest at 2.42%. Payments are to be made from the Debt Service Fund.	15,000,000
Total General Obligation Bonds Payable	\$ 94,508,812

Note Payable

\$7,216,443 Equipment / Lease Purchase Agreement of 2013, due in annual installments of \$144,517 to \$576,095 through June 1, 2028, interest at 2.21%. Payments are to be made from the General Fund. The entire balance is not associated with fixed assets.	\$ 7,216,443
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Capital Lease Payable

\$167,140 lease dated June 21, 2011 for the purchase of a copy machine. Due in monthly principal and interest installments of \$3,208 at 5.835% until June 2016. Payments are to be made from the General Fund.	\$ 72,603
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Debt Service Requirements

Annual requirements on long term debt at June 30, 2014 are as follows:

Year Ending June 30	General Obligation Bonds		Note Payable	
	Principal	Interest	Principal	Interest
2015	\$ 5,309,674	\$ 2,961,592	\$ 336,912	\$ 239,225
2016	5,481,816	2,834,629	334,054	152,038
2017	5,649,527	2,677,174	359,666	144,655
2018	5,110,402	2,511,830	386,526	136,706
2019	5,299,338	2,361,419	414,690	128,164
2020-2024	20,662,053	9,933,099	2,545,505	489,825
2025-2029	23,585,673	6,512,227	2,839,090	169,148
2030-2034	22,416,772	2,075,153	-	-
Premium	993,557	(993,557)	-	-
Totals	\$ 94,508,812	\$ 30,873,566	\$ 7,216,443	\$ 1,459,761

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014

Year Ending June 30	Capital Lease Payable		Total	
	Principal	Interest	Principal	Interest
2015	\$ 35,270	\$ 3,226	\$ 5,681,856	\$ 3,204,043
2016	37,333	1,163	5,853,203	2,987,830
2017	-	-	6,009,193	2,821,829
2018	-	-	5,496,928	2,648,536
2019	-	-	5,714,028	2,489,583
2020-2024	-	-	23,207,558	10,422,924
2025-2029	-	-	26,424,763	6,681,375
2030-2034	-	-	22,416,772	2,075,153
Premium	-	-	993,557	(993,557)
Totals	\$ 72,603	\$ 4,389	\$ 101,797,858	\$ 32,337,716

NOTE 14 FUND BALANCES

At June 30, 2014, a summary of the governmental fund balance classifications are as follows:

	General Fund	Special Revenue Funds	Debt Service Fund	Building Fund	Total
Non-spendable:					
Inventories	\$ -	\$ 114,933	\$ -	\$ -	\$ 114,933
Restricted:					
Debt Service	-	-	2,940,246	-	2,940,246
Capital Projects	138,365	371,631	-	48,317,692	48,827,688
Food Service	-	899,340	-	-	899,340
Career and Technical Education	-	364,584	-	-	364,584
Unassigned:					
General Fund	18,600,263	-	-	-	18,600,263
	<u>\$ 18,738,628</u>	<u>\$ 1,750,488</u>	<u>\$ 2,940,246</u>	<u>\$ 48,317,692</u>	<u>\$ 71,747,054</u>

Restricted Net Position Reconciliation:

	Restricted Net Position
General Fund	\$ 138,365
Debt Service Fund	2,940,246
Building Fund	48,317,692
Food Service	899,340
Career and Technical Education	364,584
Carley Estate	371,631
	<u>\$ 53,031,858</u>

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014

NOTE 15 RISK MANAGEMENT

The Bismarck Public School District No. 1 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 2,000 political subdivisions. The Bismarck Public School District pays an annual premium to NDRIF for its general liability and automobile insurance coverage. The coverage by NDRIF is limited to losses on two million dollars per occurrence for general liability and automobile. The district insures machinery and equipment with the Cincinnati Insurance Company. Coverage is limited to \$40,000,000. The district also insures the turf at the Community Bowl for \$700,000.

The Bismarck Public School District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of two million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the District with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The state Bonding Fund does not currently charge any premium for this coverage.

The Bismarck Public School District No. 1 has workers compensation with the North Dakota Workforce Safety and Insurance.

The District has retained risk for employee health and dental insurance up to a maximum of \$150,000 per year per individual. They have purchased a stop loss policy for amounts in excess of 120% of expected claims.

Claims, which have been incurred at year-end but not reported, have been recorded as a claim reserve payable in the amount of \$ 1,115,555 for 2014. Blue Cross Blue Shield, the plan administrator, has calculated this reserve requirement. Changes in the claim reserve payable during the year were as follows:

Balance, July 1, 2013	\$ 888,000
Incurred claims including incurred but not reported	13,767,403
Less: claims paid	<u>(13,539,848)</u>
Balance, June 30, 2014	<u>\$ 1,115,555</u>

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

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014

NOTE 16 NORTH DAKOTA TEACHER'S FUND FOR RETIREMENT (TFFR)

The Bismarck Public School District No. 1 contributes to the North Dakota Teachers' 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. The report is available on our website, www.discovernd.com/rio, or may be obtained by writing to Teachers' Fund for Retirement, 1930 Burnt Boat Drive, PO Box 7100, Bismarck, ND 58507-7100.

Plan members are required to contribute 9.75% of their annual covered salary and the District is required to contribute 10.75% of the teacher's salary. Plan members are required to contribute 10.75% of their annual covered salary and the District is required to contribute 12.75% of the teacher's salary starting July of 2014. The contribution requirements of plan members and the District are established and may be amended by the state legislature. The District's contributions to TFFR for the fiscal years ended June 30, 2014, 2013, and 2012 were \$6,634,962, \$6,389,986, and \$4,910,259 respectively, equal to the required contributions for the year.

NOTE 17 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

Bismarck Public School District No. 1 participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the State of North Dakota. The following is a brief description of the plan.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of Bismarck Public School District No. 1. The plan provides retirement, disability and death benefits. If an active employee dies with less than five years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary.

If the employee has earned more than five years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the date before death occurred or monthly payments in an amount equal to the employees' accrued 100% joint survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees, who become totally disabled after a minimum of 180 days of service, require monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2.0% of their final average salary for each year of service beginning when the sum of age and years of credited

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014

service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with Chapter 54-52 of the North Dakota Century Code. This state statute requires that 5% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement.

Bismarck Public School District No. 1 was required to contribute 7.26% of each participant's salary as the employers share until December 31, 2013. As of January 1, 2014, the employer's required contribution share changed to 8.26%. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. Bismarck Public School District No. 1's required and actual contributions to NDPERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$1,501,050, \$1,358,239, and \$1,022,072, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; P.O. Box 1214; Bismarck, ND 58502-1214.

NOTE 18 TRANSFERS

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

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Building fund	\$ -	\$ 88,285
Debt service	88,285	-
Total transfers	<u>\$ 88,285</u>	<u>\$ 88,285</u>

The purpose of the transfer of \$88,285 from the Building Fund to the Debt Service Fund was to pay principal payments for the current year that were incurred by the Building Fund.

NOTE 19 CONTINGENCIES

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with items and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. The District's management believes it has complied with all applicable grant provisions. In the opinion of management, any possible disallowed claim would not have a material effect on the overall financial position of the District as of June 30, 2014.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014

NOTE 20 NONMONETARY TRANSACTIONS

The District receives food commodities from the federal government to subsidize its food service and twenty-first century learning programs. The market value of commodities received for the year ended June 30, 2014 was \$111,803.

NOTE 21 COMMITMENTS

The District entered into contracts to build Liberty Elementary School. The total cost of these contracts is \$14,521,114. As of June 30, 2014, the District has paid \$12,259,373 on these contracts and is included in construction in progress.

The District entered into contracts to build Legacy High School. The total cost of these contracts is \$57,589,614. As of June 30, 2014, the District has paid \$15,762,558 on these contracts and is included in construction in progress.

NOTE 22 NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes accounting and financial reporting requirements related to pension for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement - Determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. GASB 68 is effective for periods beginning after June 15, 2014.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning new pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 which is effective for periods beginning after June 15, 2014.

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

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Original Budget	Final Budget	Actual	Variance With Budget
REVENUES				
Local sources	\$ 24,397,777	\$ 24,660,448	\$ 26,622,839	\$ 1,962,391
State sources	97,320,382	97,320,382	97,605,865	285,483
Federal sources	11,156,841	10,894,170	9,820,276	(1,073,894)
TOTAL REVENUES	132,875,000	132,875,000	134,048,980	1,173,980
EXPENDITURES				
Current				
Regular instruction	80,300,304	80,300,304	75,316,378	4,983,926
Special education	25,796,100	25,796,100	24,373,814	1,422,286
Career and technical education	5,514,931	5,514,931	5,207,641	307,290
District wide services	5,000,320	5,000,320	6,955,886	(1,955,566)
Operations and maintenance	8,342,741	8,342,741	10,488,340	(2,145,599)
Transportation	2,249,025	2,249,025	3,121,997	(872,972)
Co-curricular activities	3,165,141	3,165,141	4,393,709	(1,228,568)
Debt Service:				
Principal	7,006,438	7,006,438	33,320	6,973,118
Interest	-	-	5,176	(5,176)
Service charges	-	-	-	-
Capital outlay	-	-	3,939,058	(3,939,058)
TOTAL EXPENDITURES	137,375,000	137,375,000	133,835,319	3,539,681
Excess (deficiency) of revenues over expenditures	(4,500,000)	(4,500,000)	213,661	4,713,661
Net change in fund balances	(4,500,000)	(4,500,000)	213,661	<u>\$ 4,713,661</u>
Fund balances - beginning	18,524,967	18,524,967	18,524,967	
Fund balances - ending	<u>\$ 14,024,967</u>	<u>\$ 14,024,967</u>	<u>\$ 18,738,628</u>	

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
COMBINING BALANCE SHEET - TOTAL NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	Special Revenue Funds			Debt Service Funds	Total Nonmajor Governmental Funds
	Food Service	MRACTC	Carley Estate		
ASSETS					
Cash	\$ -	\$ 306,114	\$ 41,631	\$ 1,763,944	\$ 2,111,689
Investments	1,148,757	-	330,000	908,060	2,386,817
Taxes receivable	-	-	-	164,500	164,500
Intergovernmental receivable	-	79,324	-	-	79,324
Due from county treasurer	-	-	-	287,949	287,949
Inventory	114,933	-	-	-	114,933
TOTAL ASSETS	\$ 1,263,690	\$ 385,438	\$ 371,631	\$ 3,124,453	\$ 5,145,212
LIABILITIES					
Accounts, salaries and benefits payable	\$ 199,128	\$ 20,854	\$ -	\$ -	\$ 219,982
Due to other funds	50,289	-	-	19,707	69,996
TOTAL LIABILITIES	249,417	20,854	-	19,707	289,978
DEFERRED INFLOWS OF RESOURCES					
Delinquent taxes	-	-	-	164,500	164,500
TOTAL DEFERRED INFLOWS OF RESOURCES	-	-	-	164,500	164,500
FUND BALANCES					
Nonspendable	114,933	-	-	-	114,933
Restricted	899,340	364,584	371,631	2,940,246	4,575,801
TOTAL FUND BALANCES	1,014,273	364,584	371,631	2,940,246	4,690,734
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,263,690	\$ 385,438	\$ 371,631	\$ 3,124,453	\$ 5,145,212

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
COMBINING BALANCE SHEET - NON-MAJOR DEBT SERVICE FUNDS
JUNE 30, 2014

	G.O. Bonds of 1997	G.O. School Ref. Bonds of 2005	G.O. Ref. Bonds of 2010	G.O. Bonds of 2012	G.O. Bonds of 2013	Total Debt Service Funds
ASSETS						
Cash	\$ -	\$ 24,078	\$ 392,659	\$ 207,173	\$ 1,140,034	\$ 1,763,944
Investments	179,033	329,691	399,336	-	-	908,060
Taxes receivable	3,481	24,550	19,698	-	-	47,729
Due from county treasurer	4,702	36,491	29,387	53,885	280,255	404,720
TOTAL ASSETS	<u>\$ 187,216</u>	<u>\$ 414,810</u>	<u>\$ 841,080</u>	<u>\$ 261,058</u>	<u>\$ 1,420,289</u>	<u>\$ 3,124,453</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Unavailable revenues	\$ 3,481	\$ 24,550	\$ 19,698	\$ 18,832	\$ 97,939	\$ 164,500
Due to other funds	19,707	-	-	-	-	19,707
Total liabilities	<u>23,188</u>	<u>24,550</u>	<u>19,698</u>	<u>18,832</u>	<u>97,939</u>	<u>184,207</u>
Fund balances						
Reserved for debt service	164,028	390,260	821,382	242,226	1,322,350	2,940,246
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 187,216</u>	<u>\$ 414,810</u>	<u>\$ 841,080</u>	<u>\$ 261,058</u>	<u>\$ 1,420,289</u>	<u>\$ 3,124,453</u>

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - TOTAL NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Special Revenue Funds			Debt Service Funds	Total Nonmajor Governmental Funds
	Food Service	MRACTC	Carley Estate		
REVENUES					
Local sources	\$ 3,640,252	\$ -	\$ -	\$ 6,381,437	\$ 10,021,689
State sources	73,276	381,991	-	-	455,267
Federal sources	1,792,076	-	-	-	1,792,076
Miscellaneous	-	287,334	194	-	287,528
	<u>5,505,604</u>	<u>669,325</u>	<u>194</u>	<u>6,381,437</u>	<u>12,556,560</u>
TOTAL REVENUES					
EXPENDITURES					
Current					
Career and technical education	-	679,384	-	-	679,384
School food services	5,639,323	-	-	-	5,639,323
Debt Service					
Principal	-	-	-	3,423,980	3,423,980
Interest	-	-	-	1,687,623	1,687,623
Service charges	-	-	-	3,819	3,819
Capital Outlay	372,002	-	-	-	372,002
	<u>6,011,325</u>	<u>679,384</u>	<u>-</u>	<u>5,115,422</u>	<u>11,806,131</u>
TOTAL EXPENDITURES					
Excess (deficiency) of revenues over expenditures	(505,721)	(10,059)	194	1,266,015	750,429
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	17,485	-	-	-	17,485
Transfers in	-	-	-	88,285	88,285
	<u>17,485</u>	<u>-</u>	<u>-</u>	<u>88,285</u>	<u>105,770</u>
TOTAL OTHER FINANCING SOURCES (USES)					
Net change in fund balances	(488,236)	(10,059)	194	1,354,300	856,199
Fund balances - beginning	1,502,509	374,643	371,437	1,585,946	3,834,535
Fund balances - ending	<u>\$ 1,014,273</u>	<u>\$ 364,584</u>	<u>\$ 371,631</u>	<u>\$ 2,940,246</u>	<u>\$ 4,690,734</u>

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	G.O Bonds of 1997	G.O. School Ref. Bonds of 2005	G.O. Ref. Bonds of 2010	G.O. Bonds of 2012	G.O. Bonds of 2013	Total Nonmajor Debt Service Funds
REVENUES						
Local Sources	\$ 103,095	\$ 800,164	\$ 644,257	\$ 779,558	\$ 4,054,363	\$ 6,381,437
EXPENDITURES						
Debt Service						
Principal	148,980	715,000	645,000	460,000	1,455,000	3,423,980
Interest	18,438	220,883	95,310	76,674	1,276,318	1,687,623
Service charges	197	1,134	1,135	658	695	3,819
Total expenditures	<u>167,615</u>	<u>937,017</u>	<u>741,445</u>	<u>537,332</u>	<u>2,732,013</u>	<u>5,115,422</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(64,520)</u>	<u>(136,853)</u>	<u>(97,188)</u>	<u>242,226</u>	<u>1,322,350</u>	<u>1,266,015</u>
OTHER FINANCING SOURCES						
Transfers in	-	-	88,285	-	-	88,285
Total other financing sources	<u>-</u>	<u>-</u>	<u>88,285</u>	<u>-</u>	<u>-</u>	<u>88,285</u>
NET CHANGE IN FUND BALANCES	(64,520)	(136,853)	(8,903)	242,226	1,322,350	1,354,300
FUND BALANCE - BEGINNING	<u>228,548</u>	<u>527,113</u>	<u>830,285</u>	<u>-</u>	<u>-</u>	<u>1,585,946</u>
FUND BALANCE - ENDING	<u>\$ 164,028</u>	<u>\$ 390,260</u>	<u>\$ 821,382</u>	<u>\$ 242,226</u>	<u>\$ 1,322,350</u>	<u>\$ 2,940,246</u>

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF INTERIOR			
Passed through Standing Rock Sioux Tribe: Indian Education - Assistance to Schools	15.130		\$ <u>23,516</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through North Dakota Department of Public Instruction:			
School Breakfast Program	10.553	1006	245,048
National School Lunch Program	10.555	1006	1,428,147
National School Lunch Program - commodities	10.555	1006	111,803
Summer Food Service Program for Children Child Nutrition Cluster	10.559	1008	<u>7,079</u> 1,792,077
Child and Adult Care Food Program	10.558	1007	125,606
Fresh Fruit and Vegetable Program	10.582	1009	<u>97,676</u>
Total U.S. Department of Agriculture			<u>2,015,359</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Head Start	93.600		<u>1,408,998</u>
Total U.S. Department of Health and Human Services			<u>1,408,998</u>
U.S. DEPARTMENT OF EDUCATION			
Indian Education - Grants to Local Education Associations	84.060		168,221
English Language Acquisition Grants	84.365		413,582 A
Passed through the State Board of Career and Technical Education:			
Career and Technical Education - Basic Grants to States (Perkins IV)	84.048	2038	198,715

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF EDUCATION (CONTINUED)			
Passed through North Dakota Department of Public Instruction:			
English Language Acquisition Grants	84.365	1043	\$ 17,906 A
Adult Education	84.002	1048	71,621
Title I - Grants to LEAs	84.010	1019	2,545,304
Title I - Neglected and Delinquent Children	84.013	1018 & 1019	165,198
Education for Homeless Children and Youth	84.196	1022	20,000
IDEA, Part B Special Education	84.027	1024	2,566,173
IDEA, Part B Special Education - Preschool Special Education Cluster (IDEA)	84.173	1026	<u>58,305</u> 2,624,478
Twenty-First Century Community Learning Centers	84.287	1066	501,571
Improving Teacher Quality State Grants	84.367	1046	1,002,094
Passed through North Dakota Department of Health and Human Services:			
Special Education - Grants for Infants and Families with Disabilities	84.181		<u>1,438,012</u>
Early Intervention Services (IDEA) Cluster			1,438,012
Total U.S. Department of Education			<u>9,166,702</u>
Total expenditures of federal awards			<u>\$ 12,614,575</u>

Sum of A, CFDA #84.365 English Language Acquisition Grants \$431,488

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014

NOTE 1 BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards represents amounts expended from federal programs during the year ended June 30, 2014 based on the modified accrual basis of accounting. The amounts reported on the schedule have been reconciled to and are in agreement with amounts recorded in the accounting records from which the financial statements have been reported.

NOTE 2 RECONCILIATION TO FINANCIAL STATEMENTS

The schedule of expenditures of federal awards includes \$1,002,223 of federal funds expended and related federal revenue that is recorded in the fiduciary fund - MREC. This combined with federal revenues and expenditures in the general fund of \$9,820,276 and federal revenues and expenditures in the food service fund of \$1,792,076 equals total federal revenue and expenditures of \$12,614,575.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENTAL AUDITING STANDARDS**

To the School Board
Bismarck Public School District No. 1
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bismarck Public School District No. 1 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Bismarck Public School District No. 1's basic financial statements and have issued our report thereon dated November 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bismarck Public School District No. 1'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 Bismarck Public School District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of Bismarck Public School District No. 1's internal control.

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

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 deficiency described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a material weakness.

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

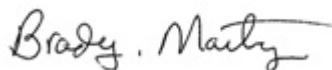
As part of obtaining reasonable assurance about whether Bismarck Public School District No. 1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2014-002.

District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The 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 it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

November 25, 2014



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the School Board
Bismarck Public School District No. 1
Bismarck, North Dakota

Report on Compliance for Each Major Federal Programs

We have audited Bismarck Public School District No. 1'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 Bismarck Public School District No. 1's major federal programs for the year ended June 30, 2014. Bismarck Public School District No. 1's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Bismarck Public School District No. 1'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 types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bismarck Public School District No. 1'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 Bismarck Public School District No. 1's compliance.

Opinion on Each Major Federal Program

In our opinion, Bismarck Public School District No. 1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

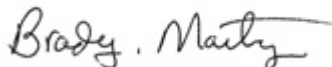
Report on Internal Control Over Compliance

Management of Bismarck Public School District No. 1 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Bismarck Public School District No. 1'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 Bismarck Public School District No. 1's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.



BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

November 25, 2014

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

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

Unmodified

Any audit findings disclosed that are Required to be reported in accordance with Circular A-133, Section .510(a)?	<u> </u> yes	<u> x </u> no
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CFDA Number(s)

Name of Federal Program or Cluster

84.010	Title I – Grants to LEAs
84.027 & 84.173	Special Education Cluster (IDEA)
84.181	Special Education – Grants for Infants and Families with Disabilities
84.013	Title I – Neglected and Delinquent Children
93.600	Head Start

Dollar threshold used to distinguish between Type A and Type B programs:	<u> \$378,437 </u>
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Auditee qualified as a low-risk auditee?	<u> </u> yes	<u> x </u> no
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BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014

Section II - Financial Statement Findings

2014-001: Material Weakness

Criteria

A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements, including recording government wide journal entries in order to reconcile from the fund financials to the government wide financials and ensuring all general ledger accounts are properly reflected on a GAAP basis.

Condition

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited, including recording government wide journal entries. As auditors, we were requested to propose entries to record debt proceeds, related expenditures and draft the financial statements, which include proposing government wide journal entries, and drafting the accompanying notes to the financial statements.

Effect

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

Cause

This control deficiency could result in a misstatement to the presentation of the footnotes in the audit ready financial statements.

Recommendation

The 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.

Views of Responsible Officials and Planned Corrective Actions

The Bismarck School Board has decided to accept the degree of risk associated with the District not preparing its own financial statements due to the time and expense necessary to have staff prepare the statements prior to the annual audit.

2014-002

Criteria

In accordance with North Dakota Century Code 21-04-09, if a public corporation desires to deposit an amount greater than a depositories insurance (FDIC, FSLIC, or NCUE) and did not receive a personal or surety bond, the excess amount must be protected by a bond or by collateral, which, when computed at market value, shall be at least ten percent more than the amount of the excess deposit.

Condition

The District had seven total bank accounts with a balance of \$95,456,674 as of June 30, 2014 that were only covered by \$750,000 of FDIC coverage and pledge securities totaling \$85,276,990, therefore leaving uncollateralized balance of \$9,429,684.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014**

Cause

The amount of pledged securities did not adequately cover bank accounts during the fiscal year 2014.

Effect

The District did not have all their deposits adequately covered by FDIC coverage and / or pledged securities as of June 30, 2014 and is not in compliance with North Dakota Century Code 21-04-09.

Recommendation

We recommend the District review all bank accounts and pledged securities, especially on new bank accounts, to ensure all deposits are adequately covered by FDIC coverage and / or pledged securities.

Views of Responsible Officials and Planned Corrective Actions

The uncollateralized balance of \$9,429,684 at June 30, 2014 resulted from a General Obligation Bond Sale that occurred at June 30, 2014. The District's three bank accounts had a balance of \$83,456,674 on July 21, 2014 which was 1.8 million below the actual collateralized amount of \$85,276,990. The District will review all bank accounts and pledged securities to ensure proper collateral is in place.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

2013-001: Material Weakness

Criteria

A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements, including recording government wide journal entries in order to reconcile from the fund financials to the government wide financials and ensuring all general ledger accounts are properly reflected on a GAAP basis.

Condition

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited, including recording government wide journal entries. As auditors, we were requested to propose entries to record debt proceeds, related expenditures and draft the financial statements, which include proposing government wide journal entries, and drafting the accompanying notes to the financial statements.

Effect

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

Cause

This control deficiency could result in a misstatement to the presentation of the footnotes in the audit ready financial statements.

Recommendation

The 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.

Views of Responsible Officials and Planned Corrective Actions

The Bismarck School Board has decided to accept the degree of risk associated with the District not preparing its own financial statements due to the time and expense necessary to have staff prepare the statements prior to the annual audit.

Status

The finding is repeated in the current year. See 2014-001

2013-002

Criteria

In accordance with North Dakota Century Code 21-04-09, if a public corporation desires to deposit an amount greater than a depositories insurance (FDIC, FSLIC, or NCUE) and did not receive a personal or surety bond, the excess amount must be protected by a bond or by collateral, which, when computed at market value, shall be at least ten percent more than the amount of the excess deposit.

Condition

The District had one bank account with a balance of \$4,333,357 as of June 30, 2013 that was only covered by \$250,000 of FDIC coverage, therefore leaving uncollateralized balance of \$4,083,357.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF PRIOR YEAR FINDINGS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014**

Cause

The bank account that was not adequately covered was a new bank account during the fiscal year 2013.

Effect

The District did not have all their deposits adequately covered by FDIC coverage and / or pledged securities as of June 30, 2013 and is not in compliance with North Dakota Century Code 21-04-09.

Recommendation

We recommend the District review all bank accounts and pledged securities, especially on new bank accounts, to ensure all deposits are adequately covered by FDIC coverage and / or pledged securities.

Views of Responsible Officials and Planned Corrective Actions

A new bank account at Deutsche Bank in Jacksonville, FL was opened by a third party as an escrow account for the \$7,216,443 Equipment Lease/Purchase Agreement of 2013. The Business Manager did not realize that this account needed to be covered by the provisions of NDCC 21-04-09. Action will be taken to correct this oversight.

Status

The finding is repeated in the current year. See 2014-002

2013-003: Expenditures – CFDA #84.181 Special Education – Grants for Infants and Families with Disabilities

Criteria

The District should maintain adequate controls over all disbursements, which includes documentation of the approval of the expenditure.

Condition

Of forty expenditures tested for this grant, one expenditure totaling \$1,000.00 was for charges outside the grant period; and there were no time and effort records to support the charges for four payroll expenditures totaling \$1,077.81.

Cause

The District is not maintaining proper internal controls for the payment of its expenditures and the District is not following their policies and procedures.

Effect

There is potential for payments to be made for expenditures not relating to the purpose of the federal funds received by the District.

Recommendation

We recommend the District follow their policies and procedures for the processing of expenditures and that no payments are made on any expenditure until the proper approval has been obtained. We also recommend that all employees whose time is charged to a federal grant either complete time cards, which are approved by their supervisor, or complete a time and effort certification twice a year.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF PRIOR YEAR FINDINGS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014**

Views of Responsible Officials and Planned Corrective Actions

The District has already begun reviewing its compliance with required documentation for the processing of expenditures so that no payments are made until the proper approval has been obtained.

Status

The finding is corrected.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2014**

2014-001

Contact Person

Darin Scherr, Business and Operations Manager

Corrective Action Plan

The management and School Board of Bismarck Public School District No. 1. do not feel it is cost beneficial to obtain and maintain this type of knowledge and expertise.

Completion Date

Bismarck Public School District No. 1 will implement when it becomes cost effective.

2014-002

Contact Person

Darin Scherr, Business and Operations Manager

Corrective Action Plan

The District will review all bank accounts and pledged securities to ensure proper collateral is in place.

Completion Date

Fiscal year 2015