

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA

Audited Financial Statements

For the Year Ended June 30, 2011

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**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Roster of School Officials

June 30, 2011

Mr. Lawrence King	President
Mr. Paul Govig	Vice-President
Mr. Steve Marquardt	Board Member
Mr. Scott Halverson	Board Member
Mr. Matt Sagsveen	Board Member
Dr. John Salwei	Superintendent
Ms. Fran Rodenburg	Assistant Superintendent
Mr. Mike Heilman	Assistant Superintendent
Mr. Edwin Gerhardt	Business Manager



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Bismarck Public School District No. 1, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Bismarck Public School District No. 1's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

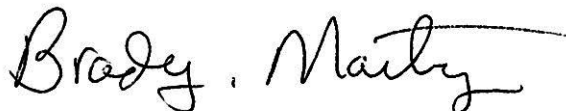
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Bismarck Public School District No. 1, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the District changed its reporting of fund balance due to the implementation of GASB Statement No. 54, *Fund Balance Reporting and Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 20, 2011 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bismarck Public School District No. 1's financial statements as a whole. The combining financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining financial statements and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Brady, Martz". The signature is written in black ink and is positioned above the printed name of the firm.

BRADY, MARTZ & ASSOCIATES, P. C.

October 20, 2011

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Management's Discussion and Analysis (Unaudited)

June 30, 2011

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, 2011, with comparative data for the fiscal year ended June 30, 2010.

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 2010-11 are as follows:

- Net assets of the District increased \$9,180,018, of which \$3,640,686 is due to a prior period adjustment and \$5,539,332 as a result of the current year's operations. See Note 3 to the financial statements for details on the prior period adjustment.
- Governmental net assets totaled \$96,883,686.
- Total revenues from all sources were \$124,640,918 and total expenditures were \$119,101,586.
- The District's general fund had \$114,243,530 in total revenues and \$113,393,586 in expenditures. As a result, the general fund balance increased by \$849,944 for the year ended June 30, 2011.
- The unassigned general fund balance was \$14,032,839 as of June 30, 2011. This balance represents 12.4% of total general fund expenditures for the year. The unassigned general fund balance increased by \$915,464 from July 1, 2010.

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 Assets 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
BISMARCK, NORTH DAKOTA**

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2011

Reporting the District as a Whole

Statement of Net Assets 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, 2011?". The Statement of Net Assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Net Assets presents information on how the District's net assets changed during the fiscal year. This statement is presented using the accrual basis of accounting, which means that all changes in net assets 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 assets and changes in those assets. This change in net assets 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 Assets 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
BISMARCK, NORTH DAKOTA**

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2011

Financial Analysis of the District as a Whole

Table 1 provides a summary of the District's net assets as of June 30, 2011, with comparative data for the fiscal year ended June 30, 2010.

As indicated in the financial highlights, the District's net assets increased by \$9,180,018 for the year ended June 30, 2011. Net assets may serve over time as a useful indicator of the District's financial position.

The District's net assets are segregated into three separate categories. Net assets invested in Capital Assets (net of related debt) represents 81% of the District's entire net assets. It should be noted that these assets are not available for future spending. Restricted net assets represent 4% of the District's net assets. Restricted net assets represent resources that are subject to external restrictions on how they must be spent. The remaining unrestricted net assets represent 15% of the District's net assets. The unrestricted net assets are available to meet the District's ongoing obligations.

**Table I
Net Assets**

	6/30/2011	6/30/2010
ASSETS		
Current assets (exc. Investment with fiscal agent)	\$ 34,490,013	\$ 35,348,077
Capital assets (net of accumulated depreciation)	91,923,486	85,771,605
Total assets	126,413,499	121,119,682
 LIABILITIES		
Current liabilities (exc. bonds payable, capital lease payable and compensated absences)	13,012,908	15,934,529
Bonds payable	13,508,653	14,842,207
Long-term liabilities (exc. bonds payable)	3,008,252	2,639,278
Total liabilities	29,529,813	33,416,014
 NET ASSETS		
Invested in capital assets, net of related debt	78,414,833	70,929,398
Restricted for debt service, capital projects and self funded health insurance	3,860,359	2,753,351
Unrestricted	14,608,494	14,020,919
TOTAL NET ASSETS	\$ 96,883,686	\$ 87,703,668

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2011

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2011.

**Table II
Changes in Net Assets**

	<u>2010-2011</u>	<u>2009-2010</u>
REVENUES		
Program revenues		
Charges for services	\$ 5,414,632	\$ 5,289,014
Operating grants and contributions	16,063,485	24,293,379
General revenues		
Property taxes	35,642,178	34,194,456
State aid - unrestricted	66,233,027	61,194,224
Interest earnings and miscellaneous revenue	<u>1,287,596</u>	<u>46,821</u>
Total revenues	<u>\$ 124,640,918</u>	<u>\$ 125,017,894</u>
	<u>2010-2011</u>	<u>2009-2010</u>
EXPENSES		
Regular instruction	\$ 63,681,456	\$ 67,015,697
Special education	19,929,182	19,149,081
Career and technical education	9,506,210	6,037,399
District wide services	3,301,035	3,439,871
Administration	2,468,172	2,571,026
School food services	4,713,713	4,397,651
Operations and maintenance	9,451,830	9,084,490
Student transportation	2,306,553	2,022,703
Co-curricular activities	3,255,937	3,147,756
Debt service	<u>487,497</u>	<u>645,659</u>
Total expenses	<u>\$ 119,101,586</u>	<u>\$ 117,511,333</u>

Unrestricted state aid constituted 53%, property taxes 29%, operating grants and contributions 13%, and charges for services 4% of the total revenues of governmental activities of the District for fiscal year 2011.

Regular instruction comprised 53%, special education 17%, and vocational education 8% of total expenditures for governmental activities for fiscal year 2011.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2011

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 6-30-11		Year Ended 6-30-10	
	Total Cost	Net Cost	Total Cost	Net Cost
Regular instruction	\$ 63,681,456	\$ 57,961,244	\$ 67,015,697	\$ 53,099,135
Special education	19,929,182	11,479,639	19,149,081	10,872,727
Career and technical education	9,506,210	8,705,433	6,037,399	5,783,395
District wide services	3,301,035	2,173,653	3,439,871	2,067,789
Administration	2,468,172	2,355,758	2,571,026	2,501,452
School food services	4,713,713	(35,596)	4,397,651	(289,939)
Operations and maintenance	9,451,830	9,451,830	9,084,490	8,730,957
Student transportation	2,306,553	2,306,553	2,022,703	1,982,703
Co-curricular activities	3,255,937	2,839,457	3,147,756	2,739,615
Other	-	(102,000)	-	(204,553)
Debt service	487,497	487,497	645,659	645,659
Total expenses	\$ 119,101,586	\$ 97,623,469	\$ 117,511,333	\$ 87,928,940

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 \$114,243,530 and total expenditures of \$113,495,206 for the year ended June 30, 2011. Total governmental funds had total revenues of \$123,993,409 and expenditures of \$122,745,344 for the year ended June 30, 2011.

General Fund Budgeting Highlights

Actual revenues for year ended June 30, 2011 were \$8,530 more than the final budget. Revenue from local sources was \$1,569,610 more than budgeted and revenue from state sources was \$822,453 more than budgeted. Revenue from federal sources was \$2,383,533 less than the budgeted amount, mainly due to a reduction in federal funding.

Actual expenditures for the year ended June 30, 2011 were under budget by \$4,404,284. Expenditures for regular instruction were \$1,173,579 less than budgeted and expenditures for district wide services \$808,374 under budget.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2011

Capital Assets

As of June 30, 2011, the District had \$91,923,486 invested in capital assets, net of accumulated depreciation. Table 4 shows balances as of June 30, 2011 and 2010:

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

CAPITAL ASSETS	<u>6/30/2011</u>	<u>6/30/2010</u>
Land	\$ 3,513,845	\$ 3,513,846
Buildings	82,849,257	60,777,376
Furniture and equipment	260,496	454,203
Vehicles and equipment	981,264	1,062,881
Improvements other than buildings	3,955,875	3,233,546
Construction in progress	<u>362,749</u>	<u>16,729,753</u>
Total capital assets (net of depreciation)	<u>\$ 91,923,486</u>	<u>\$ 85,771,605</u>

Total capital assets (before depreciation) increased from \$131,001,661 to \$136,222,235 during fiscal year 2011 and net capital assets (after depreciation) increased by \$22,519,722. Accumulated depreciation increased by \$2,709,379 from \$41,589,370 to \$44,298,749.

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

Debt Administration

As of June 30, 2011, the District had \$16,516,905 in long-term debt, of which \$13,508,653 was general obligation bonds. Principal payments of \$1,425,544 are due during 2011-2012 on general obligation bonds.

For the Future

Despite national trends, the Bismarck area and the entire State of North Dakota have experienced steady economic growth and the Bismarck School District has benefited from this growth. For fiscal year 2011, the District's taxable valuation was \$250,882,766, an increase of 3% from 2010. During the past ten years, the District's taxable valuation has more than doubled. The District's taxable valuation increased another 3.0% for the 2012 fiscal year despite national trends to the contrary.

District buildings and property were not adversely affected by the flood which impacted areas along the Missouri River during the summer of 2011. Although the Prairie Rose Elementary School was surrounded by a protective dike all summer, it did not sustain any damage and was ready for the opening of the new school year.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2011

Student enrollment has remained steady and the District has been able to maintain its physical plant in excellent condition. The District has sixteen elementary schools for the 5,870 students who were enrolled in grades kindergarten through six on the first day of the 2011-12 school year. This was an increase of 244 elementary aged students from the beginning of the 2010-11 school year.

The District's secondary students are enrolled in three middle schools covering grades 7-9, two regular high schools for sophomores through seniors and one alternative high school for students over the age of 16. Total enrollment in secondary schools was 5,138 on August 25, 2011. Overall, the District had 233 more students enrolled on the first day of the 2011-2012 school year compared to the previous year.

The Bismarck District opened two new school buildings at the beginning of the 2010-2011 school year; Sunrise Elementary School in northeast Bismarck and the Career Academy on the campus of Bismarck State College. Both projects were paid from available general and building fund reserves without the need take on any debt.

In July, the Bismarck School Board approved contracts for a \$3.5 million remodeling project at Wachter Middle School. This project will convert the auditorium into a cafetorium which will allow the space to serve multi-functional needs such as lunch, music programs, multiple class functions, etc. The project is scheduled for completion by the fall of 2012 and will be paid with funds available in the Building Fund.

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 Edwin J. Gerhardt, Business Manager, Bismarck Public Schools, 806 N Washington St., Bismarck, ND 58501; phone 701-323-4057, fax 701-323-4001, or email ed_gerhardt@bismarckschools.org.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Statement of Net Assets

June 30, 2011

ASSETS

Current assets

Cash	\$ 20,109,157
Investments	8,631,183
Accounts receivable	581,827
Taxes receivable	1,935,860
Intergovernmental receivable	2,537,049
Due from county treasurer	416,040
Inventory	278,897
Total current assets	<u>34,490,013</u>

Capital assets (net of accumulated depreciation)

Land	3,513,845
Buildings	82,849,257
Furniture and equipment	260,496
Vehicles and equipment	981,264
Improvements other than buildings	3,955,875
Construction in process	362,749
Total capital assets, net of depreciation	<u>91,923,486</u>

TOTAL ASSETS

126,413,499

LIABILITIES

Current liabilities

Accounts, salaries and benefits payable	11,399,050
Incurred but not reported claims	798,000
Interest payable	67,815
Deferred revenue	748,043
Long-term liabilities due within one year	
Bonds payable	1,425,544
Capital lease payable	29,738
Compensated absences payable	180,000
Total current liabilities	<u>14,648,190</u>

Long-term liabilities

Long-term liabilities due after one year	
Bonds payable	12,083,109
Capital lease payable	137,402
Compensated absences payable	2,661,112
Total long-term liabilities	<u>14,881,623</u>

TOTAL LIABILITIES

29,529,813

NET ASSETS

Invested in capital assets, net of related debt	78,414,833
Restricted	3,860,359
Unrestricted	14,608,494
	<u>96,883,686</u>

TOTAL NET ASSETS

\$ 96,883,686

See Notes to Financial Statements

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Statement of Activities

For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	
GOVERNMENTAL ACTIVITIES				
Regular instruction	\$ 63,681,456	\$ 921,712	\$ 4,798,500	\$ (57,961,244)
Special education	19,929,182	894,034	7,555,509	(11,479,639)
Career and technical education	9,506,210	-	800,777	(8,705,433)
District wide services	3,301,035	-	1,127,382	(2,173,653)
Administration	2,468,172	-	112,414	(2,355,758)
School food services	4,713,713	3,182,406	1,566,903	35,596
Operations and maintenance	9,451,830	-	-	(9,451,830)
Transportation	2,306,553	-	-	(2,306,553)
Co-curricular activities	3,255,937	416,480	-	(2,839,457)
Other	-	-	102,000	102,000
Interest - unallocated	485,045	-	-	(485,045)
Bond service charges and costs	2,452	-	-	(2,452)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 119,101,586	\$ 5,414,632	\$ 16,063,485	\$ (97,623,469)

GENERAL REVENUES

Taxes	
Property taxes, levied for general purposes	31,376,443
Property taxes, levied for building purposes	2,470,263
Property taxes, levied for debt services	1,795,472
Unrestricted state aid	66,233,027
Unrestricted investment earnings	13,094
Miscellaneous revenue	1,274,502
TOTAL GENERAL REVENUES	103,162,801
Change in net assets	5,539,332
Net Assets - Beginning, as originally stated	87,703,668
Prior period adjustment	3,640,686
Net Assets - Beginning, restated	91,344,354
Net Assets - Ending	\$ 96,883,686

See Notes to Financial Statements

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Balance Sheet – Governmental Funds

June 30, 2011

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Current assets			
Cash	\$ 16,293,552	\$ 1,905,851	\$ 18,199,403
Investments	5,925,218	2,063,165	7,988,383
Accounts receivable	581,827	-	581,827
Taxes receivable	1,707,625	228,235	1,935,860
Intergovernmental receivable	2,355,741	181,308	2,537,049
Due from county treasurer	366,895	49,145	416,040
Inventory	170,052	108,845	278,897
Total current assets	<u>27,400,910</u>	<u>4,536,549</u>	<u>31,937,459</u>
TOTAL ASSETS	<u><u>\$ 27,400,910</u></u>	<u><u>\$ 4,536,549</u></u>	<u><u>\$ 31,937,459</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Current liabilities			
Accounts, salaries and benefits payable	\$ 10,742,351	\$ 341,221	\$ 11,083,572
Due to other funds	748,043	-	748,043
Deferred revenue	1,707,625	228,235	1,935,860
Total current liabilities	<u>13,198,019</u>	<u>569,456</u>	<u>13,767,475</u>
TOTAL LIABILITIES	<u>13,198,019</u>	<u>569,456</u>	<u>13,767,475</u>
FUND BALANCES			
Nonspendable	170,052	108,845	278,897
Restricted for Debt Service	-	1,119,389	1,119,389
Restricted for Capital Projects	-	1,301,894	1,301,894
Assigned	-	1,436,965	1,436,965
Unassigned	14,032,839	-	14,032,839
TOTAL FUND BALANCES	<u>14,202,891</u>	<u>3,967,093</u>	<u>18,169,984</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 27,400,910</u></u>	<u><u>\$ 4,536,549</u></u>	<u><u>\$ 31,937,459</u></u>

See Notes to Financial Statements

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets**

June 30, 2011

Total fund balances - governmental funds		\$ 18,169,984
Total net assets reported for government activities in the statement of net assets 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	136,222,234	
Less accumulated depreciation	<u>(44,298,748)</u>	
Net capital assets		91,923,486
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 revenues in the funds.		
		1,935,860
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 expenditures when due. All liabilities both current and long-term are reported in the statement of net assets.		
Balances at June 30, 2011 are:		
Bonds payable	(13,508,653)	
Capital lease payable	(167,140)	
Interest payable	(67,815)	
Compensated absences	<u>(2,841,112)</u>	
Total long-term liabilities		(16,584,720)
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 assets.		
		<u>1,439,076</u>
Total net assets of governmental activities		<u>\$ 96,883,686</u>

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

For the Year Ended June 30, 2011

	General Fund	Governmental Funds	Governmental Funds
REVENUES			
Local sources	\$ 34,347,764	\$ 7,445,181	\$ 41,792,945
State sources	66,240,797	582,967	66,823,764
Federal sources	13,654,969	1,474,620	15,129,589
Miscellaneous	-	247,111	247,111
TOTAL REVENUES	114,243,530	9,749,879	123,993,409
EXPENDITURES			
Current			
Regular instruction	65,248,906	-	65,248,906
Special education	19,873,126	-	19,873,126
Career and technical education	4,470,421	729,411	5,199,832
District wide services	3,099,201	-	3,099,201
Administration	2,495,350	-	2,495,350
School food services	-	4,619,744	4,619,744
Operations and maintenance	9,333,150	-	9,333,150
Transportation	2,242,135	-	2,242,135
Co-curricular activities	3,266,058	-	3,266,058
Debt Service			
Principal	-	1,333,554	1,333,554
Interest	-	485,046	485,046
Service charges	-	2,452	2,452
Capital outlay	3,365,239	2,181,551	5,546,790
TOTAL EXPENDITURES	113,393,586	9,351,758	122,745,344
Excess of revenues over expenditures	849,944	398,121	1,248,065
OTHER FINANCING SOURCES (USES)			
Proceeds from long term debt	167,140	-	167,140
Transfers in	-	182,555	182,555
Transfers out	(101,620)	(80,935)	(182,555)
TOTAL OTHER FINANCING SOURCES (USES)	65,520	101,620	167,140
Net change in fund balances	915,464	499,741	1,415,205
Fund balances - beginning	13,287,427	3,467,352	16,754,779
Fund balances - ending	\$ 14,202,891	\$ 3,967,093	\$ 18,169,984

See Notes to Financial Statements

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

**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, 2011

Net change in fund balances - total governmental funds		\$ 1,415,205
The change in net assets 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)	5,248,475	
Current year depreciation expense	<u>(2,736,442)</u>	
		2,512,033
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 gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.		
		(837)
Governmental funds report capital lease debt proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of capital lease debt as a liability.		
		(167,140)
Repayment of debt principal is an expenditure in the governmental fund, but repayment reduces long-term liabilities in the statement of net assets.		
		1,333,554
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	(201,834)	
Net decrease in interest payable	<u>5,349</u>	
		(196,485)
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.		
		(139,146)
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>782,148</u>
Change in net assets of governmental activities		<u><u>\$ 5,539,332</u></u>

See Notes to Financial Statements

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Budgetary Comparison Schedule – General Fund

For the Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Budget</u>
REVENUES				
Local sources	\$ 32,712,984	\$ 32,778,154	\$ 34,347,764	\$ 1,569,610
State sources	65,394,094	65,418,344	66,240,797	822,453
Federal sources	<u>16,077,922</u>	<u>16,038,502</u>	<u>13,654,969</u>	<u>(2,383,533)</u>
TOTAL REVENUES	<u>114,185,000</u>	<u>114,235,000</u>	<u>114,243,530</u>	<u>8,530</u>
EXPENDITURES				
Current				
Regular instruction	67,680,384	66,524,105	65,248,906	1,275,199
Special education	20,400,318	20,438,019	19,873,126	564,893
Career and technical education	4,314,720	4,284,485	4,470,421	(185,936)
District wide services	2,866,465	3,907,575	3,099,201	808,374
Administration	2,817,129	2,857,137	2,495,350	361,787
Operations and maintenance	10,275,906	9,885,133	9,333,150	551,983
Transportation	2,295,264	2,374,999	2,242,135	132,864
Co-curricular activities	3,314,196	3,305,140	3,266,058	39,082
Grant reserves	1,075,000	952,279	-	952,279
Capital outlay	<u>2,960,618</u>	<u>3,370,618</u>	<u>3,365,239</u>	<u>5,379</u>
TOTAL EXPENDITURES	<u>118,000,000</u>	<u>117,899,490</u>	<u>113,393,586</u>	<u>4,505,904</u>
Excess (deficiency) of revenues over expenditures	<u>(3,815,000)</u>	<u>(3,664,490)</u>	<u>849,944</u>	<u>4,514,434</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long term debt	-	-	167,140	167,140
Other	115,000	65,000	-	(65,000)
Transfers	<u>-</u>	<u>(100,510)</u>	<u>(101,620)</u>	<u>(1,110)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>115,000</u>	<u>(35,510)</u>	<u>65,520</u>	<u>101,030</u>
Net change in fund balances	(3,700,000)	(3,700,000)	915,464	4,615,464
Fund balances - beginning	<u>13,287,427</u>	<u>13,287,427</u>	<u>13,287,427</u>	<u>-</u>
Fund balances - ending	<u>\$ 9,587,427</u>	<u>\$ 9,587,427</u>	<u>\$ 14,202,891</u>	<u>\$ 4,615,464</u>

See Notes to Financial Statements

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Statement of Net Assets – Proprietary Funds

June 30, 2011

	<u>Internal Service Fund Insurance</u>
ASSETS	
Current assets	
Cash	\$ 1,909,754
Investments	642,800
Due from other funds	<u>748,043</u>
Total current assets	<u>3,300,597</u>
LIABILITIES	
Current liabilities	
Accounts payable	315,478
Incurred but not reported claims	798,000
Deferred revenue	<u>748,043</u>
Total current liabilities	<u>1,861,521</u>
NET ASSETS	
Unrestricted	<u><u>\$ 1,439,076</u></u>

See Notes to Financial Statements

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund

For the Year Ended June 30, 2011

	<u>Internal Service Funds Insurance</u>
Operating revenues	
Contributions to self-insurance district	\$ 12,781,294
Contributions to self-insurance cobra	467,514
Rebates	<u>88,849</u>
Total operating revenues	<u>13,337,657</u>
 Operating expenses	
Health insurance claims	<u>12,555,509</u>
 Change in net assets	<u>782,148</u>
 Total net assets - beginning of year	<u>656,928</u>
 Total net assets - end of year	<u><u>\$ 1,439,076</u></u>

See Notes to Financial Statements

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Statement of Cash Flows – Proprietary Fund

For the Year Ended June 30, 2011

	Internal Service Fund Insurance
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from district - current premiums	\$ 12,781,294
Received from COBRA premiums	467,514
Rebates received	88,849
Payments for health insurance claims	<u>(12,601,827)</u>
Net cash provided by operating activities	<u>735,830</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of investments	<u>350,000</u>
Net cash provided by operating activities	<u>350,000</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,085,830
CASH AND CASH EQUIVALENTS - BEGINNING	<u>823,924</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 1,909,754</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 782,148
Adjustments to reconcile operating loss to net cash provided by operating activities	
Changes in assets and liabilities	
Decrease in accounts payable	(23,318)
Decrease in incurred by not reported claims	<u>(23,000)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 735,830</u></u>

See Notes to Financial Statements

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Combining Statement of Fiduciary Assets and Liabilities – Agency Funds

June 30, 2011

	TLC	Student Activites	MREC	Total
ASSETS				
Cash and cash equivalents	\$ 7,600	\$ 174,327	\$ 280,696	\$ 462,623
Investments	40,000	461,204	50,000	551,204
Intergovernmental receivables	-	-	154,535	154,535
Total assets	\$ 47,600	\$ 635,531	\$ 485,231	\$ 1,168,362
LIABILITIES				
Accounts, salaries and benefits payable	\$ -	\$ 11,941	\$ 27,236	\$ 39,177
Due to consortium participants	47,600	-	457,995	505,595
Due to student activities groups	-	623,590	-	623,590
Total liabilities	\$ 47,600	\$ 635,531	\$ 485,231	\$ 1,168,362

See Notes to Financial Statements

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements

June 30, 2011

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 sixteen elementary schools, three middle schools, three senior high schools, an alternative high school, a career academy, technical center, and an early childhood center.

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. In June, 2009, the Financial Accounting Standards Board (FASB) established the FASB Accounting Standards Codification as the single source of authoritative accounting principles recognized by the FASB in the preparation of financial statements in conformity with Generally Accepted Accounting Principles. The Codification supersedes existing non grandfathered, non SEC accounting and reporting. Bismarck Public School District No. 1's government wide financial statements apply Financial Accounting Standards Board (FASB) Codification Standards for Statements and Interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements for the District's proprietary funds. Bismarck Public School District No. 1's significant accounting policies are described below.

A. Basis of presentation

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

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements - Continued

June 30, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

A. Basis of presentation - Continued

Government-Wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) 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. 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 of component units that are fiduciary in nature.

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 Districts’ 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 fund is as follows:

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements - Continued

June 30, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Basis of presentation - Continued

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.

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:

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 assets and changes in net assets. 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.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements - Continued

June 30, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. 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 Assets.

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 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.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements - Continued

June 30, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. 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.

D. 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.

E. Investments

Investments are recorded at market 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.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements - Continued

June 30, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. 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.

G. 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

H. Compensated Absences:

Vested or accumulated vacation leave is reported in government-wide statements of net assets. Compensation for unused vacation leave will be granted to all full-time administrators, other professional non-certified employees, and support staff employees upon termination of employment with the District. The professional non-certified employees may carry forward unused vacation leave not to exceed 20 days. Nine, ten and eleven month administrators may carry up to 19 days of leave forward, and all other staff may carry forward no more than 20 days leave. Support staff working less than full time will be able to carry forward 5 personal days.

Compensation for unused sick leave will be granted to all full-time administrators, other professional non-certified employees, and support staff employees upon retirement from the District. The severance payment will be based on \$30.00 per day for administrators and professional support staff, \$25.00 per day for teachers and \$20.00 per day for all other support staff for each day of unused sick leave not to exceed \$3,000.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements - Continued

June 30, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

I. 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 assets. Bond premiums, discounts, and issuance costs are recognized in the current period since the amounts are not material.

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. Premium 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.

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets net of debt, 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 assets are 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 assets includes: amounts restricted for debt service, capital projects and self funded health insurance.

K. 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.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements - Continued

June 30, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

K. Fund Balance Classifications - Continued

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.

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

L. 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.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements - Continued

June 30, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

M. 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 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.

N. Deferred Revenues

Receivables, such as taxes receivable, may be measurable 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 deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

O. 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
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements - Continued

June 30, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

P. 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 14, 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.

Q. Revenue Recognition - Property Taxes / Proprietary Fund

As of June 30, 2011, 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.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements - Continued

June 30, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

R. Implementation of New Accounting Principle

The District implemented GASB Statement No. 54, Fund Balance Reporting and Fund Type Definitions during the year ending June 30, 2011. GASB Statement No. 54 establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, the definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

NOTE 3 PRIOR PERIOD ADJUSTMENT

The District has made a prior period adjustment to its June 30, 2010 financial statements for an understatement of construction in process. The effect on the June 30, 2010 financial statement is to increase construction in process by \$3,640,686 and increase unrestricted net assets by \$3,640,686.

NOTE 4 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
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements - Continued

June 30, 2011

NOTE 4 DEPOSITS AND INVESTMENTS - CONTINUED

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 or 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.

A. Custodial Credit Risk

At year ended June 30, 2011, the District's carrying amount of deposits was as follows:

Governmental funds	\$ 18,199,403
Internal service fund	1,909,754
Agency funds	<u>462,623</u>
 Total deposits	 <u><u>\$ 20,571,780</u></u>

The bank balance of these deposits as of June 30, 2011 was \$21,351,075. The difference results from checks outstanding or deposits not yet processed. Of the bank balances, \$19,391,348 was covered by Federal Depository Insurance, \$1,457,281 was collateralized with securities held by the pledging financial institutions' agent in the District's name and \$2,446 is exposed to credit risk. The \$2,446 of deposits is funds deposited with the Bank of North Dakota. These deposits are backed by the full faith and credit of the State of North Dakota.

B. 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.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements - Continued

June 30, 2011

NOTE 4 DEPOSITS AND INVESTMENTS - CONTINUED

B. Credit Risk and Interest Rate Risk - Continued

- 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, 2011 the school's portion of MBBM had a market value of \$8,157,928. At June 30, 2011, 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>
Government bonds	<u>\$ 8,138,878</u>	<u>\$ 6,940,976</u>	<u>\$ 1,197,902</u>
Total debt securities	8,138,878	<u>\$ 6,940,976</u>	<u>\$ 1,197,902</u>
Money market	<u>19,050</u>		
Total investments	<u>\$ 8,157,928</u>		

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements - Continued

June 30, 2011

NOTE 4 DEPOSITS AND INVESTMENTS - CONTINUED

C. 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, 2011.

S&P Credit Rating	Total Fair Value	Government Bonds
AAA	\$ 6,337,519	\$ 6,337,519
NR	1,801,359	1,801,359
Total credit risk Debt securities	8,138,878	\$ 8,138,878
Money market	19,050	
Total debt securities	\$ 8,157,928	

NOTE 5 TAXES RECEIVABLE

Taxes receivable consists of the following as of June 30, 2011:

Property Tax Receivable:

General fund	\$ 1,707,625
Other governmental funds	228,235
	\$ 1,935,860

NOTE 6 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 receives to be collectable; therefore no allowance for doubtful accounts has been set up.

NOTE 7 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.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements - Continued

June 30, 2011

NOTE 8 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 9 INVENTORIES

Inventories consist of supplies and materials of the general fund and food and 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.

NOTE 10 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2011:

	<u>July 1, 2010 (Restated*)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>
Capital assets not being depreciated				
Land	\$ 3,513,846	\$ -	\$ -	\$ 3,513,846
Construction in progress	<u>20,370,439</u>	<u>362,749</u>	<u>20,370,439</u>	<u>362,749</u>
Total capital assets, not depreciated	<u>23,884,285</u>	<u>362,749</u>	<u>20,370,439</u>	<u>3,876,595</u>
Capital assets, being depreciated				
Buildings	98,692,515	23,903,739	-	122,596,254
Improvements other than buildings	4,928,743	966,635	-	5,895,378
Furniture and equipment	1,484,289	324,055	-	1,808,344
Vehicles and equipment	<u>2,011,829</u>	<u>61,735</u>	<u>27,900</u>	<u>2,045,664</u>
Total capital assets, being depreciated	<u>107,117,376</u>	<u>25,256,164</u>	<u>27,900</u>	<u>132,345,640</u>
Less accumulated depreciation for				
Buildings	37,915,139	2,210,572	-	40,125,711
Improvements other than buildings	1,695,197	244,306	-	1,939,503
Furniture and equipment	1,030,086	139,049	-	1,169,135
Vehicles and equipment	<u>948,948</u>	<u>142,515</u>	<u>27,063</u>	<u>1,064,400</u>
Total accumulated depreciation	<u>41,589,370</u>	<u>2,736,442</u>	<u>27,063</u>	<u>44,298,749</u>
Total capital assets being depreciated, net	<u>65,528,006</u>	<u>22,519,722</u>	<u>837</u>	<u>88,046,891</u>
Governmental activities capital assets, net	<u>\$ 89,412,291</u>	<u>\$ 22,882,471</u>	<u>\$ 20,371,276</u>	<u>\$ 91,923,486</u>

*Capital assets have been restated as of July 1, 2010 due to the prior period adjustment. See note 3 for details on the prior period adjustment.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements - Continued

June 30, 2011

NOTE 10 CAPITAL ASSETS - CONTINUED

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

Governmental activities	
Elementary Instruction Depreciation	\$ 723,492
Middle School Depreciation	725,608
Senior High Depreciation	480,811
Special Education Depreciation	56,056
Vocational Depreciation	241,289
Administration Depreciation	76,572
Food Service Depreciation	29,282
Operations & Maintenance Depreciation	330,638
Transportation Depreciation	64,418
Student Activities Depreciation	8,276
Total depreciation expense - governmental activities	<u><u>\$ 2,736,442</u></u>

As of June 30, 2011, Equipment capitalized under a capital lease and the accumulated depreciation is as follows.

Capitalized leased equipment	\$ 103,750
Less accumulated depreciation	-
	<u><u>\$ 103,750</u></u>

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, 2011 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, 2011:

General Fund:

Accounts payable	\$ 8,445,480
Salaries payable	2,056,126
Benefits payable	240,745
	<u>10,742,351</u>

School Food Services Fund:

Accounts payable	196,282
Salaries payable	10,558
Benefits payable	868
	<u>207,708</u>

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements - Continued

June 30, 2011

NOTE 11 ACCOUNTS, SALARIES AND BENEFITS PAYABLE - CONTINUED

MRACTC:

Accounts payable	48,527
Salaries payable	<u>7,352</u>
	<u>55,879</u>

Building Fund:

Accounts payable	<u>\$ 77,634</u>
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Internal Service Fund:

Accounts payable	<u>315,478</u>
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Total accounts, salaries and benefits payable	<u><u>\$ 11,399,050</u></u>
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NOTE 12 OPERATING LEASES

The District entered into operating leases for office equipment, with monthly payments totaling \$6,529 per month. During the year the District paid \$72,192 on these leases. Lease obligations for the next four years are as follows:

2012	\$ 76,057
2013	39,343
2014	39,343
2015	36,578

NOTE 13 LONG-TERM DEBT

A. Changes in Long-Term Liabilities

During the year ended June 30, 2011, the following changes occurred in liabilities reported in long-term liabilities:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>One Year</u>
Compensated absences *	\$ 2,639,278	\$ 201,834	\$ -	\$ 2,841,112	\$ 180,000
Capital lease payable	-	167,140	-	167,140	29,738
General obligation bonds	<u>14,842,207</u>	<u>-</u>	<u>(1,333,554)</u>	<u>13,508,653</u>	<u>1,425,544</u>
Total	<u><u>\$ 17,481,485</u></u>	<u><u>\$ 368,974</u></u>	<u><u>\$ (1,333,554)</u></u>	<u><u>\$ 16,516,905</u></u>	<u><u>\$ 1,635,282</u></u>

* 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.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements - Continued

June 30, 2011

NOTE 13 LONG-TERM DEBT - CONTINUED

B. Debt Outstanding

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

	<u>Outstanding 6/30/11</u>
<u>General Obligation Bonds</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.	\$ 461,151
\$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.	6,650,000
\$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.	924,360
\$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.	908,142
\$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.	<u>4,565,000</u>
Total General Obligation Bonds Payable	<u><u>\$ 13,508,653</u></u>
<u>Capital Lease Payable</u>	
\$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.	<u><u>\$ 167,140</u></u>

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements - Continued

June 30, 2011

NOTE 13 LONG-TERM DEBT - CONTINUED

C. Debt Service Requirements

Annual requirements on long term debt at June 30, 2011 are as follows:

Year Ending June 30	General Obligation Bonds		Capital Lease Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 1,425,544	\$ 448,656	\$ 29,738	\$ 8,758	\$ 1,455,282	\$ 457,414
2013	1,522,731	408,918	31,478	7,018	1,554,209	415,936
2014	1,630,123	365,437	33,320	5,176	1,663,443	370,613
2015	1,747,724	312,936	35,270	3,226	1,782,994	316,162
2016	1,875,540	250,957	37,334	1,163	1,912,874	252,120
2017-2020	5,072,591	387,202	-	-	5,072,591	387,202
2021-2023	234,399	10,760	-	-	234,399	10,760
Totals	<u>\$ 13,508,653</u>	<u>\$ 2,184,865</u>	<u>\$ 167,140</u>	<u>\$ 25,341</u>	<u>\$ 13,675,793</u>	<u>\$ 2,210,206</u>

NOTE 14 FUND BALANCES

At June 30, 2011, a summary of the governmental fund balance classifications are as follows:

	General Fund	Special Revenue Fund	Debt Service Fund	Building Fund	Total
Non-spendable					
Inventories	\$ 170,052	\$ 108,845	\$ -	\$ -	\$ 278,897
Restricted					
Debt Service	-	-	1,119,389	-	1,119,389
Capital Projects	-	-	-	1,301,894	1,301,894
Assigned					
Food Service	-	1,306,058	-	-	1,306,058
Career and Technical Education	-	130,907	-	-	130,907
Unassigned					
General Fund	14,032,839	-	-	-	14,032,839
	<u>\$ 14,202,891</u>	<u>\$ 1,545,810</u>	<u>\$ 1,119,389</u>	<u>\$ 1,301,894</u>	<u>\$ 18,169,984</u>

Restricted Net Asset Reconciliation:

	Restricted Net Assets
Debt Service Fund	\$ 1,119,389
Building Fund	1,301,894
Internal Service Fund - Insurance	1,439,076
	<u>\$ 3,860,359</u>

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements - Continued

June 30, 2011

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 (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The Bismarck Public School District pays an annual premium to NDIRF for its general liability and automobile insurance coverage. The coverage by NDIRF 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 \$100,000 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 \$798,000 for 2011. Blue Cross Blue Shield, the plan administrator, has calculated this reserve requirement. Changes in the claim reserve payable during the year were as follows:

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements – CONTINUED

June 30, 2011

NOTE 15 RISK MANAGEMENT - CONTINUED

Balance, July 1, 2010	\$ 821,000
Incurred claims including incurred but not reported	12,555,509
Less: claims paid	<u>12,578,509</u>
Balance, June 30, 2011	<u>\$ 798,000</u>

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

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 7.75% of their annual covered salary and the District is required to contribute 8.25% of the teacher's salary. 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, 2011, 2010, and 2009 were \$4,743,928, \$4,451,179, and \$3,956,224, 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.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements – CONTINUED

June 30, 2011

NOTE 17 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM - CONTINUED

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

Benefit and contribution provisions are administered in accordance with Chapter 54-53 of the North Dakota Century Code. This state statute requires that 4% 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 is required to contribute 5.26% of each participant's salary as the employer's share. 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, 2011, 2010 and 2009 were \$889,763, \$827,144, and \$746,823, 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.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements – CONTINUED

June 30, 2011

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, 2011:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General fund	\$ -	\$ 101,620
Special Revenue MRACTC fund	101,620	-
Debt service	-	80,935
Building fund	80,935	-
Total transfers	<u>\$ 182,555</u>	<u>\$ 182,555</u>

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, 2011.

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, 2011 was \$194,703.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Notes to the Financial Statements – CONTINUED

June 30, 2011

NOTE 21 NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 57, *OPEB measurements by Agent Employers and Agent Multiple-Employer Plans* – the provisions related to the use and reporting of alternative measurement method was effective on issuance, December 2009. The provisions related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in financial statements of other postemployment benefit plans is effective for periods beginning after June 15, 2011. This statement addresses issues related to the use of alternative measurement method and the frequency and timing of measurements by employer that participate in agent multiple-employer other postemployment benefit plans (agent employers). This Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* will be effective for financial statement periods beginning after June 15, 2012 with earlier application encouraged. The statement will improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the requirements of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* will be effective for financial statement periods beginning after December 15, 2011 with early application encouraged. The Statement brings the authoritative accounting and financial reporting literature together in one place, with the guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial users. It will eliminate the need to financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, resulting in a more consistent application of applicable guidance in financial statements of state and local governments.

NOTE 22 SUBSEQUENT EVENT

In July 2011, the District entered into contracts for improvements to Wachter Middle School. The total cost under these contracts are \$3,228,295.

Subsequent events noted above were evaluated through October 20, 2011, which is the date these financial statement were available to be issued.

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Combining Balance Sheet – Total Non-Major Governmental Funds

As of June 30, 2011

	<u>Special Revenue Funds</u>		Debt	Building	Total
	Food	MRACTC	Service	Fund	Nonmajor
	<u>Service</u>		<u>Funds</u>		<u>Governmental</u>
					<u>Funds</u>
ASSETS					
Cash	\$ 349,755	\$ 20,690	\$ 190,410	\$ 1,344,996	\$ 1,905,851
Investments	1,148,799	-	908,244	6,122	2,063,165
Accounts receivable	-	-	-	-	-
Taxes receivable	-	-	96,521	131,714	228,235
Intergovernmental receivable	15,212	166,096	-	-	181,308
Due from county treasurer	-	-	20,735	28,410	49,145
Inventory	108,845	-	-	-	108,845
TOTAL ASSETS	<u><u>\$ 1,622,611</u></u>	<u><u>\$ 186,786</u></u>	<u><u>\$ 1,215,910</u></u>	<u><u>\$ 1,511,242</u></u>	<u><u>\$ 4,536,549</u></u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts, salaries and benefits payable	\$ 207,708	55,879	\$ -	\$ 77,634	\$ 341,221
Deferred revenue	-	-	96,521	131,714	228,235
TOTAL LIABILITIES	<u>207,708</u>	<u>55,879</u>	<u>96,521</u>	<u>209,348</u>	<u>569,456</u>
FUND BALANCES					
Nonspendable	108,845	-	-	-	108,845
Restricted	-	-	1,119,389	1,301,894	2,421,283
Assigned	1,306,058	130,907	-	-	1,436,965
TOTAL FUND BALANCES	<u>1,414,903</u>	<u>130,907</u>	<u>1,119,389</u>	<u>1,301,894</u>	<u>3,967,093</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 1,622,611</u></u>	<u><u>\$ 186,786</u></u>	<u><u>\$ 1,215,910</u></u>	<u><u>\$ 1,511,242</u></u>	<u><u>\$ 4,536,549</u></u>

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Combining Balance Sheet – Non-Major Debt Service Funds

June 30, 2011

	<u>G.O. Bonds of 1997</u>	<u>G.O. School Ref. Bonds of 2005</u>	<u>G.O. Ref. Bonds of 2010</u>	<u>Total Debt Service Funds</u>
Assets				
Cash	\$ 16,780	\$ 46,070	\$ 127,560	\$ 190,410
Investments	179,046	329,777	399,421	908,244
Taxes receivable	9,849	47,811	38,861	96,521
Due from county treasurer	<u>2,114</u>	<u>10,309</u>	<u>8,312</u>	<u>20,735</u>
 Total assets	 <u>\$ 207,789</u>	 <u>\$ 433,967</u>	 <u>\$ 574,154</u>	 <u>\$ 1,215,910</u>
 Liabilities and Fund Balances				
Liabilities				
Deferred revenue	<u>\$ 9,849</u>	<u>\$ 47,811</u>	<u>\$ 38,861</u>	<u>\$ 96,521</u>
 Fund balances				
Reserved for debt service	<u>197,940</u>	<u>386,156</u>	<u>535,293</u>	<u>1,119,389</u>
 Total liabilities and fund balances	 <u>\$ 207,789</u>	 <u>\$ 433,967</u>	 <u>\$ 574,154</u>	 <u>\$ 1,215,910</u>

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

**Combining Statement of Revenues, Expenditures, and Changes in Fund
Balances – Total Nonmajor Governmental Funds**

For Year Ended June 30, 2011

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>	<u>Building Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service</u>	<u>MRACTC</u>			
REVENUES					
Local sources	\$ 3,182,406	\$ -	\$ 1,795,885	\$ 2,466,890	\$ 7,445,181
State sources	71,380	511,587	-	-	582,967
Federal sources	1,474,620	-	-	-	1,474,620
Miscellaneous	-	247,111	-	-	247,111
TOTAL REVENUES	<u>4,728,406</u>	<u>758,698</u>	<u>1,795,885</u>	<u>2,466,890</u>	<u>9,749,879</u>
EXPENDITURES					
Current					
Career and technical education	-	729,411	-	-	729,411
School food services	4,619,744	-	-	-	4,619,744
Debt Service					
Principal	-	-	1,221,497	112,057	1,333,554
Interest	-	-	445,154	39,892	485,046
Service charges	-	-	2,052	400	2,452
Capital Outlay	64,688	-	-	2,116,863	2,181,551
TOTAL EXPENDITURES	<u>4,684,432</u>	<u>729,411</u>	<u>1,668,703</u>	<u>2,269,212</u>	<u>9,351,758</u>
Excess (Deficiency) of Revenues Over Expenditures	43,974	29,287	127,182	197,678	398,121
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	-	-	-	-	-
Proceeds from long term debt	-	-	-	-	-
Transfers in	-	101,620	80,935	-	182,555
Transfers out	-	-	-	(80,935)	(80,935)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>101,620</u>	<u>80,935</u>	<u>(80,935)</u>	<u>101,620</u>
Net Change in Fund Balances	43,974	130,907	208,117	116,743	499,741
Fund Balances - Beginning	1,370,929	-	911,272	1,185,151	3,467,352
Fund Balances - Ending	<u>\$ 1,414,903</u>	<u>\$ 130,907</u>	<u>\$ 1,119,389</u>	<u>\$ 1,301,894</u>	<u>\$ 3,967,093</u>

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

**Combining Statement of Revenues, Expenditures, and Changes in Fund
Balances – Nonmajor Debt Service Funds**

For Year Ended June 30, 2011

	<u>G.O. Bonds of 1997</u>	<u>G.O. School Ref. Bonds of 2005</u>	<u>G.O. Ref. Bonds of 2010</u>	<u>Total Nonmajor Debt Service Funds</u>
Revenues				
Local Sources	<u>\$ 182,886</u>	<u>\$ 895,464</u>	<u>\$ 717,535</u>	<u>\$ 1,795,885</u>
Expenditures				
Debt Service				
Principal	136,497	550,000	535,000	1,221,497
Interest	30,921	287,673	126,560	445,154
Service charges	<u>200</u>	<u>821</u>	<u>1,031</u>	<u>2,052</u>
Total expenditures	<u>167,618</u>	<u>838,494</u>	<u>662,591</u>	<u>1,668,703</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>15,268</u>	<u>56,970</u>	<u>54,944</u>	<u>127,182</u>
Other Financing Sources				
Proceeds from long term debt	-	-	-	-
Transfers in	-	-	80,935	80,935
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>80,935</u>	<u>80,935</u>
Net Change in Fund Balances	15,268	56,970	135,879	208,117
Fund Balance - July 1	<u>182,672</u>	<u>329,186</u>	<u>399,414</u>	<u>911,272</u>
Fund Balance - June 30	<u><u>\$ 197,940</u></u>	<u><u>\$ 386,156</u></u>	<u><u>\$ 535,293</u></u>	<u><u>\$ 1,119,389</u></u>

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2011

<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		\$ 20,271
U.S. DEPARTMENT OF AGRICULTURE			
Passed through North Dakota Department of Public Instruction:			
School Breakfast Program	10.553	1006	210,775
National School Lunch Program	10.555	1006	1,227,222
National School Lunch Program - commodities	10.555	1006	194,703
Summer Food Service Program for Children Child Nutrition Cluster	10.559	1008	<u>21,328</u> 1,654,028
Child and Adult Care Food Program	10.558	1007	219,385
Team Nutrition Grants	10.574	1011	2,150
Fresh Fruit and Vegetable Program	10.582	1009	<u>25,652</u>
Total U.S. Department of Agriculture			<u>1,901,215</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Head Start	93.600		1,475,606
ARRA - Head Start Head Start Cluster	93.708		<u>4,392</u> 1,479,998
Passed through North Dakota Department of Health and Human Services:			
Medical Assistance Program (Medicaid) Medicaid Cluster	93.778	610-07865 970-07639	<u>259,125</u> 259,125
Total U.S. Department of Health and Human Services			<u>1,739,123</u>

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Schedule of Expenditures of Federal Awards - Continued

For the Year Ended June 30, 2011

<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			
Indian Education - Grants to Local Education Associations	84.060A		\$ 146,440
Rehabilitation Services - Vocational Rehabilitation Vocational Rehabilitation Cluster	84.126		<u>2,016</u> 2,016
Passed through North Dakota Department of Public Instruction:			
English Language Acquisition Grants	84.365	1043	231,530
Adult Education	84.002	1048	102,000
Title I - Grants to LEAs	84.010	1019	2,271,350
ARRA - Title I - Grants to LEAs Title I, Part A Cluster	84.389	1164	<u>1,020,781</u> 3,292,131
Title I - Neglected and Delinquent Children	84.013	1018 & 1019	191,420
Safe and Drug-Free Schools and Communities	84.186A	1050	23,034
Education for Homeless Children and Youth	84.196	1022	66,688
IDEA, Part B Special Education	84.027	1024	2,627,131
IDEA, Part B Special Education - Preschool	84.173	1026	53,342
ARRA - IDEA, Part B Special Education	84.391	1162	1,400,878
ARRA - IDEA, Part B Special Education - Preschool Special Education Cluster (IDEA)	84.392	1163	<u>65,158</u> 4,146,509
Twenty-First Century Community Learning Centers	84.287	1066	835,853
Education Technology State Grants	84.318	1004	18,363
ARRA - Education Technology State Grants Education Technology State Grants Cluster	84.386	1166	<u>42,882</u> 61,245
Improving Teacher Quality State Grants	84.367	1046	908,585
ARRA - School Improvement Grants School Improvement Grants Cluster	84.388A	1165	<u>911,054</u> 911,054

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA**

Schedule of Expenditures of Federal Awards - Continued

For the Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. DEPARTMENT OF EDUCATION (CONTINUED)			
Passed through the State Board of Career and Technical Education: Career and Technical Education - Basic Grants to States (Perkins IV)	84.048	2038	239,091
Passed through North Dakota Department of Health and Human Services: Special Education - Grants for Infants and Families with Disabilities Early Intervention Services (IDEA) Cluster	84.181		<u>1,451,533</u> 1,451,533
Total U.S. Department of Education			<u>12,609,129</u>
Total expenditures of federal awards			<u><u>\$ 16,269,738</u></u>

NOTE 1 BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards represents amounts expended from federal programs during the year ended June 30, 2011 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.



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 the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Bismarck Public School District No. 1, as of and for the year ended June 30, 2011, which collectively comprise Bismarck Public School District No. 1's basic financial statements and have issued our report thereon dated October 20, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bismarck Public School District No. 1's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bismarck Public School District No. 1's internal control over financial reporting.

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.

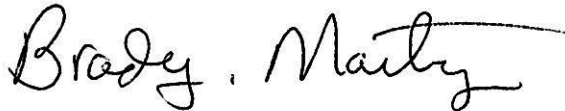
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2011-1 that we consider to be a significant deficiency in internal control over financial reporting. 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 no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Bismarck Public School District No. 1's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Bismarck Public School District No. 1's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the School Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brady, Marty". The signature is written in a cursive style with a long horizontal flourish extending from the end of the name.

BRADY, MARTZ & ASSOCIATES, P.C.

October 20, 2011



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**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**

INDEPENDENT AUDITOR'S REPORT

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

Compliance

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, 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Bismarck Public School District No. 1's management. Our responsibility is to express an opinion on Bismarck Public School District No. 1's compliance based on our audit.

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. Our audit does not provide a legal determination of Bismarck Public School District No. 1's compliance with those requirements.

In our opinion, the Bismarck Public School District No. 1, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

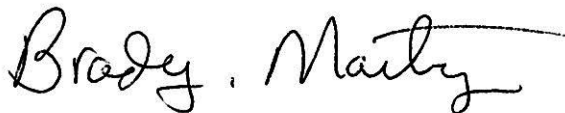
Internal Control over Compliance

Management of the Bismarck Public School District No. 1, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Bismarck Public School District No. 1's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the School Board, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Brady, Martz". The signature is written in black ink and is positioned above the printed name of the firm.

BRADY, MARTZ & ASSOCIATES, P.C.

October 20, 2011

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2011

Section I - Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion of the financial statements of the Bismarck Public School District No. 1.
2. One significant deficiency was disclosed during the audit of the financial statements and is reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an audit of financial statements performed in accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of Bismarck Public School District No. 1, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies are reported relative to the major federal award programs for Bismarck Public School District No. 1.
5. The auditor's report on compliance for the major federal award programs for Bismarck Public School District No. 1 expresses an unqualified opinion on all major Federal award programs.
6. The audit disclosed no findings required to be reported under Section 510(a) of OMB Circular A-133.
7. The major programs were as follows:

<u>Major Program</u>	<u>CFDA Numbers</u>
Title I, Part A Cluster	84.010 & 84.389
School Improvement Grant, ARRA	84.388
IDEA Cluster - Special Education	84.027, 84.173, 84.391 & 84.392
Head Start Cluster	93.600 & 93.708

8. The threshold for distinguishing a Type A program was \$488,092.
9. Bismarck Public School District No. 1 was not determined to be a low-risk auditee for the year ended June 30, 2011.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1

Schedule of Findings and Questioned Costs - Continued

For the Year Ended June 30, 2011

SECTION II – FINDINGS - FINANCIAL STATEMENT AUDIT

2011-1 Finding

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.

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 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.

Management's Response

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.

SECTION III – FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None noted.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1

Schedule of Prior Year Findings

For the Year Ended June 30, 2011

SECTION IV – STATUS OF PRIOR YEAR FINDINGS

2010-1 Finding

Criteria

A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements.

Condition

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

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.

Management's Response

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 of Finding

The finding is repeated in the current year. See 2011-1.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1

Corrective Action Plan

For the Year Ended June 30, 2011

2011-1

Contact Person

Ed Gerhardt, Business 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.