



**ISNA WICA OWAYAWA
(LONEMAN SCHOOL)**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2016



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ISNA WICA OWAYAWA

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Isna Wica Owayawa
Oglala, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of **ISNA WICA OWAYAWA (Loneman School)** (the School), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents. We were also engaged to audit the accompanying financial statements of the aggregate remaining fund information of the School as of and for the year ended June 30, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the aggregate remaining fund information.

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

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

Basis for Disclaimer of Opinion

The School did not maintain adequate documentation to support the balances on the statement of fiduciary net position for the Agency Fund. As such, we were unable to obtain sufficient appropriate audit evidence that this fund is free of material misstatements by other auditing procedures. There is only one fund included in the aggregate remaining fund information of the School.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the aggregate remaining fund information of the School as of and for the year ended June 30, 2016. Accordingly, we do not express an opinion on the aggregate remaining fund information as of and for the year ended June 30, 2016.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the School as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Contingency – Noncompliance

As disclosed in Note 5, questioned costs total **\$870** for the year ended June 30, 2016. Resolution of these costs needs to be made with the respective funding agency. The accompanying financial statements do not reflect any liability relating to the repayment that may be necessary due to these questioned costs, but do reflect a liability for questioned costs of prior years in which the Bureau of Indian Affairs has sent a related bill of collection.

In addition to questioned costs, the School has violated certain restrictive grant provisions. The possible outcome of these matters, which have been reported to appropriate federal officials, is uncertain at this time. Accordingly, no provision of any liability has been made in the financial statements for possible federal claims for refunds of those grant monies.

Contingency – Uncertainties Regarding Noncompliance of Laws and Regulations

As discussed in Note 9 to the financial statements, the School did not file required forms with state and federal governments or remit retirement contributions within the deadline in prior years. The School calculated lost earnings for non-remitted retirement contributions totaling \$29,449 through March 31, 2016. Accordingly, a liability has been recorded in the financial statements. The School has not determined any liability for additional lost earnings at this time. In addition, it is at least reasonably possible that the School will be assessed for additional lost earnings, interest, or penalties on non-remitted retirement contributions. Our opinion is not modified with respect to this matter.

Contingency - Going Concern

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As described in Note 11 to the financial statements, the School has a large operating deficit generated during the past and current fiscal years. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding this matter are also described in Note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that budgetary comparison information on pages 21 to 24 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* on page 36, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2017 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

March 9, 2017

ISNA WICA OWAYAWA

**STATEMENT OF NET POSITION
JUNE 30, 2016**

	Governmental Activities
<u>ASSETS</u> (Note 7)	
Cash	\$ 2,856,469
Accounts Receivable	2,636
Due from Grantor (Note 2)	14,390
Inventory	8,059
Prepaid Expenses	17,744
Capital Assets, Net of Depreciation (Note 4)	346,068
TOTAL ASSETS	\$ 3,245,366
<u>LIABILITIES</u>	
Accounts Payable	\$ 58,709
Accrued Liabilities (Note 9)	180,240
Internal Balances (Note 3)	48,782
Disallowed Costs Payable (Note 5)	3,005,779
Compensated Absences (Note 7)	
Due Within One Year	8,120
Note Payable (Note 7)	
Due Within One Year	70,110
Due in More than One Year	45,772
TOTAL LIABILITIES	3,417,512
<u>NET POSITION</u> (Note 11)	
Net Investment in Capital Assets	230,186
Restricted (Note 8)	
Indian School Equalization Program	1,204,572
Special Education - Part B	882,146
Title Programs	497,186
Program Enhancement	92,090
Transportation	60,720
Quarters Maintenance, Improvement and Repair	80,269
Assessment Grant	62,826
Suicide Prevention	5,494
Running Strong	144
Unrestricted Deficit	(3,287,779)
TOTAL NET POSITION	(172,146)
TOTAL LIABILITIES AND NET POSITION	\$ 3,245,366

The accompanying notes are an integral part of this statement.

ISNA WICA OWAYAWA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Total Governmental Activities
<i>Governmental Activities:</i>				
Instruction				
Basic Operations	\$ 1,408,881	\$ -	\$ 2,093,419	\$ 684,538
Special Education-Part B	481,264	-	565,066	83,802
Title Programs	417,716	-	623,300	205,584
Program Enhancement	68,258	-	34,020	(34,238)
Suicide Prevention	2,387	-	7,881	5,494
Support Services				
Transportation	391,555	-	462,380	70,825
Administration	327,550	-	538,900	211,350
Facilities	328,617	-	396,103	67,486
Food Service	154,293	6,722	163,348	15,777
General				
Housing	15,378	32,867	-	17,489
General Operations	319	-	-	(319)
	3,596,218	39,589	4,884,417	1,327,788
Total Primary Government	\$ 3,596,218	\$ 39,589	\$ 4,884,417	1,327,788
General Revenues				
				66,626
				11,475
				765
				(1,890)
				76,976
				1,404,764
				(1,576,910)
				\$ (172,146)

The accompanying notes are an integral part of this statement.

ISNA WICA OWAYAWA

GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2016

	General Fund	Educational Programs Fund	Support Programs Fund	Construction Fund	Total Governmental Funds
ASSETS					
Cash	\$ 86,521	\$ 2,651,065	\$ 117,660	\$ 1,223	\$ 2,856,469
Accounts Receivable	-	2,636	-	-	2,636
Due from Grantor (Note 2)	-	14,390	-	-	14,390
Inventory	-	-	8,059	-	8,059
Prepaid Expenses	-	14,385	3,359	-	17,744
Interfund Receivable (Note 3)	-	225,547	-	8,293	233,840
TOTAL ASSETS	\$ 86,521	\$ 2,908,023	\$ 129,078	\$ 9,516	\$ 3,133,138
LIABILITIES					
Accounts Payable	\$ 256	\$ 10,611	\$ 38,332	\$ 9,510	\$ 58,709
Accrued Liabilities (Note 9)	-	152,954	27,286	-	180,240
Disallowed Costs Payable (Note 5)	3,005,779	-	-	-	3,005,779
Interfund Payable (Note 3)	279,882	-	2,740	-	282,622
TOTAL LIABILITIES	3,285,917	163,565	68,358	9,510	3,527,350
FUND BALANCES					
Nonspendable-Inventory	-	-	8,059	-	8,059
Nonspendable-Prepaid Expenses	-	14,385	3,359	-	17,744
Nonspendable-Interfund Receivable	-	225,547	-	8,293	233,840
Restricted (Note 8)	80,269	2,504,526	49,302	-	2,634,097
Unassigned (Note 11)	(3,279,665)	-	-	(8,287)	(3,287,952)
TOTAL FUND BALANCES (DEFICIT)	(3,199,396)	2,744,458	60,720	6	(394,212)
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	\$ 86,521	\$ 2,908,023	\$ 129,078	\$ 9,516	\$ 3,133,138

The accompanying notes are an integral part of this statement.

ISNA WICA OWAYAWA

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2016**

Total Fund Deficit - Governmental Funds \$ (394,212)

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets (net of depreciation) used in governmental activities are not current financial resources and therefore, are not reported in the governmental funds balance sheet. 346,068

Accrued absences do not require current financial resources. Therefore, they are not reported as a liability in the governmental funds balance sheet. (8,120)

Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet. (115,882)

Net Position - Governmental Activities \$ (172,146)

The accompanying notes are an integral part of this statement.

ISNA WICA OWAYAWA

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES
FOR THE YEAR ENDED JUNE 30, 2016**

	General Fund	Educational Programs Fund	Support Programs Fund	Construction Fund	Total Governmental Funds
REVENUES					
Revenue from Federal Sources	\$ -	\$ 3,323,686	\$ 1,397,383	\$ -	\$ 4,721,069
Revenue from State Sources	-	-	163,348	-	163,348
Miscellaneous Revenue	378	993	65,255	-	66,626
Rentals	32,867	-	-	-	32,867
Earnings on Investments and Deposits	11,469	-	-	6	11,475
Charges for Services	-	-	6,722	-	6,722
Donations	565	200	-	-	765
TOTAL REVENUES	45,279	3,324,879	1,632,708	6	5,002,872
EXPENDITURES					
<i>Instruction:</i>					
Basic Operations	-	1,408,881	-	-	1,408,881
Special Education-Part B	-	481,264	-	-	481,264
Title Programs	-	417,716	-	-	417,716
Program Enhancement	-	68,258	-	-	68,258
Suicide Prevention	-	2,387	-	-	2,387
<i>Support Services:</i>					
Transportation	-	-	333,886	-	333,886
Administration	-	-	325,812	-	325,812
Facilities	-	-	323,888	-	323,888
Food Service	-	-	154,293	-	154,293
<i>General:</i>					
Housing	13,734	-	-	-	13,734
General Operations	319	-	-	-	319
<i>Capital Outlay:</i>					
	-	-	96,076	-	96,076
<i>Debt Service:</i>					
	-	-	127,709	-	127,709
TOTAL EXPENDITURES	14,053	2,378,506	1,361,664	-	3,754,223
Excess of Revenues Over Expenditures	31,226	946,373	271,044	6	1,248,649
Other Financing Sources (Uses)					
Transfers In (Out) (Note 3)	1,106,929	(733,135)	(373,794)	-	-
Total Other Financing Sources (Uses)	1,106,929	(733,135)	(373,794)	-	-
Net Change in Fund Balances	1,138,155	213,238	(102,750)	6	1,248,649
Fund Balance (Deficit) - June 30, 2015	(4,337,551)	2,531,220	163,470	-	(1,642,861)
Fund Balance (Deficit) - June 30 2016	\$ (3,199,396)	\$ 2,744,458	\$ 60,720	\$ 6	\$ (394,212)

The accompanying notes are an integral part of this statement.

ISNA WICA OWAYAWA

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Net Change in Fund Balances - Total Governmental Funds \$ 1,248,649

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount that capital outlays exceeded depreciation expense in the current period. 41,389

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 116,616

In the Statement of Activities, losses of \$1,890 on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds of \$-0- from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized. (1,890)

Change in Net Position - Governmental Activities \$ 1,404,764

The accompanying notes are an integral part of this statement.

ISNA WICA OWAYAWA

**STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016**

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	\$ 4,362
Accounts Receivable	344
Due from Governmental Funds (Note 3)	48,782
	<u>\$ 53,488</u>
<u>LIABILITIES</u>	
Custodial Liability	<u>\$ 53,488</u>

The accompanying notes are an integral part of this statement.

ISNA WICA OWAYAWA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(1) Summary of Significant Accounting Policies

Financial Reporting Entity

Isna Wica Owayawa (Loneman School) (the School) operates an elementary and middle school on the Pine Ridge Indian Reservation in Oglala, South Dakota. The School receives substantially all of its funding through the Bureau of Indian Affairs (BIA) and the U.S. Department of Education.

All operations of the School are controlled by an elected School Board, responsible for all of the School's activities. The financial statements include all of the School's operations controlled by the School Board. Based on the criteria for determining the reporting entity (separate legal entity and fiscal or financial dependency on other governments), the School is considered to be an independent reporting entity and has no component units.

Basis of Presentation

The basic financial statements of the School include the government-wide and fund financial statements. The focus is on the School as a whole in the government-wide financial statements, while reporting additional and detailed information about the School's major governmental activities in fund financial statements.

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. Governmental activities generally are financed through federal grants. The School has no business-type activities. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School's own programs.

The Statement of Net Position reports all financial and capital resources in a balance sheet form (assets equal liabilities plus net position). Net position is displayed in three components, as applicable: net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

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

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the category. A fund is considered major if it is the primary operating fund of the School or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures of the individual governmental fund are at least ten percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures of the individual governmental fund are at least five percent of the corresponding total for all governmental funds, or
3. Management has elected to classify one or more governmental funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

ISNA WICA OWAYAWA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Fund Financial Statements (Continued):

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund - The General Fund is the general operating fund, designed to meet all the general operational and housing activities of the School, excluding those required to be accounted for in another fund. The general fund is always a major fund.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Each of the funds described below is financed by the federal government and is considered a major fund.

Educational Programs Fund - Established to support the direct educational needs of the School.

Support Programs Fund - Established to account for supplemental funds received for support activities including food service, transportation, facility maintenance, and administration.

Construction Fund - Established to account for new school construction funds.

Fiduciary Funds:

Agency Fund Types - Agency funds are used to account for resources held by the School in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature, they do not involve the measurement of results of operations. The School maintains an agency fund to account for the monies earned by the students for student activities. Fiduciary funds are never considered to be major funds.

Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the “economic resources” measurement focus, applied on the accrual basis of accounting. Agency funds are not included in the measurement of results of operation; therefore, measurement focus is not applicable to them, and they are omitted from the government-wide reporting.

Fund Financial Statements:

In the fund financial statements, the “current financial resources” measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the fiduciary funds.

ISNA WICA OWAYAWA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(1) Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned, and expenses and related liabilities are recorded when an obligation is incurred. Revenue from non-exchange transactions (i.e. federal grants) generally includes certain eligibility and purpose requirements. Revenue from these grants is considered earned at the time all eligibility requirements have been satisfied.

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues generally are recognized when they become measurable and available. "Measurable" means knowing or being able to reasonably estimate the amount. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay current liabilities (60 days).

Revenues from federal and state grants are recognized when all eligibility requirements have been satisfied and when the resources are available. Any unexpended portions of grant revenues that have been received are considered restricted. Expenditures in excess of amounts received but earned are recorded as due from grantor.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt and compensated absences, which are recognized when due.

All fiduciary funds are accounted for using the accrual basis of accounting. Revenue is recognized when it is earned and expenses are recognized when they are incurred.

Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified. In order to minimize the grossing-up effect on assets and liabilities within the governmental activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental activities columns, except for the net, residual amounts due between governmental and fiduciary activities, which are presented as internal balances.

Fund Financial Statements:

Usually, current portions of interfund receivables are considered available, spendable resources. The School's interfund balances are the result of over expenditures in specific funds. Due to the nature of the interfund transactions, repayment is not expected within one year. As the School cannot legally transfer funds due to BIA funding regulations, the balances remain in the interfund balances, as opposed to being reclassified as transfers.

Inventory

Inventory consists of food and fuel and is valued at the lower of cost or market value. The cost valuation method is first-in, first out. Donated commodities are valued at estimated market value based on the U.S. Department of Agriculture price list at the date of receipt.

ISNA WICA OWAYAWA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(1) Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets include mobile homes, vehicles, equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

All federal grantors retain a reversionary interest in selected property purchased with their respective contract funds. Most of the capital assets reported by the School have been acquired with federal funds.

The BIA supplies the facilities required to operate the School. Accordingly, substantially all building and infrastructure utilized by the School are owned by the BIA. The BIA also provides a facilities grant to cover costs associated with operating the buildings. A value for these facilities supplied by the BIA is not reflected in the accompanying financial statements.

The accounting treatment over capital assets depends on whether the assets are reported in the government-wide or fund financial statements.

Government-wide Financial Statements:

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. The capitalization threshold (the dollar value above which asset acquisitions are added to the capital asset accounts) is \$5,000.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. The straight-line method of depreciation is used and the estimated useful lives of capital assets reported in the government-wide statements are as follows:

	<u>Estimated Useful Life</u>
Mobile Homes	25 Years
Vehicles	10 Years
Equipment	5 Years

Fund Financial Statements:

Capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition.

Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. Interest expense related to the long-term liabilities is reported as a direct cost to the Transportation program on the Statement of Activities. The long-term liabilities consist of a note payable and compensated absences (See Note 7).

Compensated absences consist of annual leave earned. Annual leave is earned by full-time employees at the rate of four to eight hours per pay period, depending on years of service. Upon termination, employees are entitled to receive compensation for their current fiscal year accrual at their current rate of pay. Based on specific qualifications, a maximum of forty hours carried over from previous years' balances will also be compensated. Funding for compensated absences is expended in the same fund as the corresponding payroll. In the governmental fund financial statements, compensated absences are reported as expenditures when paid.

ISNA WICA OWAYAWA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(1) Summary of Significant Accounting Policies (Continued)

Long-Term Liabilities (Continued)

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due.

Program Revenues

In the government-wide Statement of Activities, reported program revenues derive directly from the program itself. Program revenues are classified into three categories, as follows:

1. Charges for services arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program. The School received no program specific capital grants and contributions during the year ended June 30, 2016.

Deposits

The School follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits and investments imposed by statute require funds to be invested in securities insured, secured, or guaranteed by the United States. The School's investment policy does not further limit its investment choices. As of June 30, 2016, the School's cash consisted of checking and savings accounts. The School's policy is to credit income to the fund in which the corresponding assets are recorded.

Credit Risk and Custodial Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This risk is commonly expressed in terms of the credit quality rating issued by the Nationally Recognized Statistical Rating Organization (NRSO). Custodial credit risk is the risk that, in the event of a depository failure, the School's deposits may not be returned. As of June 30, 2016, all bank balances were entirely insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities held by the pledging financial institution.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Concentration in any one single issuer presents a greater risk for loss in the event the issuer fails on its obligations. The School has no investments other than checking and savings accounts. Therefore, no concentration of credit risk exists for the School at June 30, 2016.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Investments in debt securities that are fixed for longer periods are likely to experience greater variability in their fair values due to future changes in interest rates. The School's deposits consist of checking and savings accounts; therefore no interest rate risk exists for the School at June 30, 2016.

Use of Estimates

The preparation of the financial statements with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain financial statement balances. Actual results could vary from the estimates used.

ISNA WICA OWAYAWA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(1) Summary of Significant Accounting Policies (Concluded)

Equity Classifications

Government-wide Financial Statements:

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

1. Net investment in capital assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position - Consists of net position with constraints placed on their use by either (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position - All other net position that does not meet the definition of "restricted" or "net investment in capital assets." The School reports negative unrestricted net position. The amounts must be replaced to eliminate compliance findings regarding the misuse of advanced federal funds (Note 5).

It is the School's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Financial Statements:

The School classifies governmental fund balances as follows:

1. Nonspendable - amounts that cannot be spent because they are not in spendable form or are required to be maintained intact due to legal or contractual constraints. This includes inventory, prepaid expenses, and long-term interfund receivables.
2. Restricted - amounts that are constrained for specific purposes by external providers, such as grantors and/or creditors, or amounts constrained due to constitutional provisions or by enabling legislation.
3. Committed - amounts that are constrained for specific purpose by the School itself, using its highest level of decision making authority (School Board approval); to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint. The School has no committed fund balances at June 30, 2016.
4. Assigned - amounts that the School intends to use for a specific purposes that are neither considered restricted or committed. Intent can be expressed by the governing body or by an official or body to which the governing body delegates authority (e.g. Superintendent or Business Manager). The School has no assigned fund balances at June 30, 2016.
5. Unassigned - amounts in the general fund that have not been classified in the above categories and are available for any purpose; positive amounts are reported only in the general fund.

The School uses restricted amounts first when both restricted and unrestricted fund balance is available. Additionally, the School would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

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

Federal Income Tax

The School qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not subject to federal income tax. As such, no income taxes have been provided for in the accompanying financial statements. In addition, the School has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code. At June 30, 2016, the School believes no significant uncertain tax positions or liabilities exist.

ISNA WICA OWAYAWA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(2) Due from Grantor

Amounts due from grantor as of June 30, 2016 consists of **\$14,390** due from the Department of the Interior, Bureau of Indian Education.

(3) Interfund Balances and Transactions

Interfund receivable and payables are the result of over expenditures within individual funds and are not expected to be repaid within the next year. Amounts consist of the following at June 30, 2016:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$ -	\$ 279,882
Educational Programs Fund	225,547	-
Support Programs Fund	-	2,740
Construction Fund	8,293	-
Agency Fund	48,782	-
Total Interfund Balances	\$ 282,622	\$ 282,622

Interfund transfers for the year ended June 30, 2016, were as follows:

Transfers	General Fund	Educational Programs Fund	Support Programs Fund
Transfers of grant funding to repay due to other funds associated with overspending in prior years:			
General	\$ 1,106,929	\$ -	\$ -
Basic Operations	-	(667,503)	-
Title Programs	-	(65,632)	-
Administration	-	-	(213,282)
Facilities	-	-	(144,735)
Food Service	-	-	(15,777)
Total Transfers	\$ 1,106,929	\$ (733,135)	\$ (373,794)

ISNA WICA OWAYAWA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

(4) Changes in Capital Assets

A summary of changes in capital assets for the year ended June 30, 2016 is shown below.

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Governmental Activities:				
<i>Capital Assets Being Depreciated</i>				
Mobile Homes	\$ 13,750	\$ -	\$ -	\$ 13,750
Vehicles and Equipment	605,022	96,076	44,450	656,648
Total Capital Assets Being Depreciated	618,772	96,076	44,450	670,398
<i>Less Accumulated Depreciation for:</i>				
Mobile Homes	10,045	1,644	-	11,689
Vehicles and Equipment	302,158	53,043	42,560	312,641
Total Accumulated Depreciation	312,203	54,687	42,560	324,330
Total Capital Assets Being Depreciated, Net	\$ 306,569	\$ 41,389	\$ 1,890	\$ 346,068

Depreciation expense was charged to functions within governmental activities as follows:

Transportation	\$ 46,576
Facilities	4,729
Administration	1,738
Housing	1,644
Total Depreciation Expense	\$ 54,687

(5) Disallowed Costs Payable, Questioned Costs, and Noncompliance Contingency

Disallowed Costs Payable consists of the following at June 30, 2016:

Bill of Collection Date	For Year Ending	Bill of Collection Balance
(a)	June 30, 2007	\$ 161,849
December 21, 2010	June 30, 2008	252,445
November 22, 2012	June 30, 2011	474,607
September 27, 2013	June 30, 2012	1,075,873
June 9, 2015	June 30, 2013	1,041,005
Total Disallowed Costs Payable		\$ 3,005,779

The School is in the process of appealing each bill of collection. The results of those requests are not yet available. Since the outcome of the appeals is unknown, no fees, interest or penalty amounts have been accrued.

(a) On April 9, 2009, the Bureau of Indian Affairs (BIA) issued a bill of collection for disallowed costs totaling \$485,403, which relates to questioned costs for the year ending June 30, 2007. The School appealed this action. On October 23, 2009, the BIA agreed to reduce the bill of collection to \$257,284. On November 1, 2011, the BIA further reduced the bill of collection to \$161,849.

Questioned costs for the years ended June 30, 2016, 2015, and 2014, of \$870, \$7,682 and \$44,300, respectively, need to be resolved with the funding agency. No liability has been recorded for these potential liabilities.

The School also has significant noncompliance with federal grant requirements that did not result in questioned costs. The ultimate resolution of any liability for the noncompliance will be made by the federal agency.

ISNA WICA OWAYAWA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(6) Operating Lease

The School currently has one operating lease agreement for five office copiers. The lease period extends through October 2016 with a monthly payment of \$736. For the year ended June 30, 2016, the total lease expense incurred under this agreement and other month to month agreements for copiers and equipment was **\$12,825**. Minimum future lease payments for the year ending June 30, 2017 is \$2,208.

(7) Long-Term Liabilities

The following is a summary of changes in long-term liabilities during the year ended June 30, 2016:

	Note Payable	Compensated Absences	Total
Governmental Activities			
Long-Term Liabilities July 1, 2015	\$ 232,498	\$ 8,120	\$ 240,618
Additions	-	47,400	47,400
Reductions	(116,616)	(47,400)	(164,016)
Long-Term Liabilities June 30, 2016	\$ 115,882	\$ 8,120	\$ 124,002
Due Within One Year	\$ 70,110	\$ 8,120	\$ 78,230

The compensated absences will be paid from the same fund as the related payroll, whereas the note payable will be paid from the Support Fund.

The School has one note payable with an authorized borrowing amount of \$330,098 as of June 30, 2016, with First National Bank, secured by substantially all assets of the School. Payments of \$6,155 are due monthly, including interest at 4.50 percent. The note is due in July 2020; however, based on current borrowings and repayments it will be repaid by February 2018.

The annual requirements to amortize all debt outstanding as of June 30, 2016, excluding compensated absences, are as follows:

Year Ending June 30,	Note Payable	
	Principal	Interest
2017	\$ 70,110	\$ 3,753
2018	45,772	741
Total	\$ 115,882	\$ 4,494

Total interest expense was **\$11,093** for the year ended June 30, 2016.

(8) Grant Carryover

Fund balances at June 30, 2016, noted as restricted on the Statement of Net Position and Governmental Funds Balance Sheet, represent amounts received in grant funding for which allowable expenditures have not yet been incurred. The School's restricted fund balances at June 30, 2016 are as follows:

ISNA WICA OWAYAWA

NOTES TO FINANCIAL STATEMENTS (CONCLUDED)

JUNE 30, 2016

(8) Grant Carryover (Continued)

Grant Carryover	General	Educational Programs	Support Programs	Total
Indian School Equalization Program (ISEP)	\$ -	\$ 1,204,572	\$ -	\$ 1,204,572
Special Education - Part B	-	882,146	-	882,146
Title Programs	-	497,186	-	497,186
Program Enhancement	-	92,090	-	92,090
Transportation	-	-	60,720	60,720
Quarters Maintenance, Improvement and Repair	80,269	-	-	80,269
Assessment Grant	-	62,826	-	62,826
Suicide Prevention	-	5,494	-	5,494
Running Strong (non-federal)	-	144	-	144
Total Grant Carryover	80,269	2,744,458	60,720	2,885,447
Less Nonexpendable Portion of Grant Carryover:				
Prepaid Expenses	-	(14,385)	(3,359)	(17,744)
Inventory	-	-	(8,059)	(8,059)
Interfund Receivable	-	(225,547)	-	(225,547)
Total Restricted Fund Balances	\$ 80,269	\$ 2,504,526	\$ 49,302	\$ 2,634,097

(9) Employee Retirement Plan

The School has a 401(k) plan available for its employees. The School is required to match two percent of each eligible employee's salary. Each employee is allowed to contribute to the plan each year, however they are not required to. The School's matching contributions for the years ended June 30, 2016, 2015 and 2014 totaled **\$27,306**, \$30,649, and \$32,234. No amounts related to this retirement plan, other than the matching contributions, are reflected in the financial statements, as all employee accounts are immediately 100 percent vested.

The School did not remit 401(k) employer match and employee contributions during the year ended June 30, 2014 to the School's retirement plan administrator. This is in violation of the School's policies and may result in additional interest and penalties as determined by the Department of Labor. As of June 30, 2016, all 401(k) employer match and contributions have been submitted. In addition, a liability totaling **\$29,449** has been recorded for lost investment earnings on these contributions through March 31, 2016. A liability for subsequent periods is not estimable at this time. No communication has been received from the Department of Labor, and it is at least reasonably possible that additional liabilities reflecting penalties and interest may be necessary.

(10) Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past year. The School provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

(11) Going Concern

At June 30, 2016, the School reports a fund deficit of **\$3,199,396** in the general fund. This represents a decrease in the deficit of \$1,138,155 from the prior year due mainly to a repayment of due to other funds. The School's continued operation is dependent upon revenue sources to replace these funds and internal controls to ensure over-expenditures are eliminated. The School is also working with their funding agent, the BIA, regarding problems associated with over-expenditures and resolution on the bills of collection issued.

REQUIRED SUPPLEMENTARY INFORMATION

ISNA WICA OWAYAWA

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	Original and Final Budget	Actual- Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES			
Rentals	\$ 14,766	\$ 32,867	\$ 18,101
Earnings on Investments and Deposits	-	11,469	11,469
Donations	-	565	565
Miscellaneous Revenue	-	378	378
Total Revenues	14,766	45,279	30,513
EXPENDITURES			
Supplies	3,368	4,499	(1,131)
Utilities	8,500	3,463	5,037
Contractual and Professional Services	2,000	5,772	(3,772)
Other	6	319	(313)
Personnel and Fringe Benefits	4,000	-	4,000
Repairs and Maintenance	3,000	-	3,000
Debt Service	127,708	-	127,708
Total Expenditures	148,582	14,053	134,529
Excess of Revenues Over Expenditures	(133,816)	31,226	165,042
Other Financing Sources			
Transfers In	-	1,106,929	1,106,929
Net Change in Fund Deficit	(133,816)	1,138,155	165,042
Fund Deficit -- June 30, 2015	(4,337,551)	(4,337,551)	-
Fund Deficit -- June 30, 2016	\$ (4,471,367)	\$ (3,199,396)	\$ 165,042

The accompanying notes to required supplementary information are an integral part of this statement.

ISNA WICA OWAYAWA

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
EDUCATIONAL PROGRAMS FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	Original and Final Budget	Actual- Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES			
Revenue from Federal Sources	\$ 3,693,669	\$ 3,323,686	\$ (369,983)
Miscellaneous Revenue	-	993	993
Donations	-	200	200
Total Revenues	3,693,669	3,324,879	(368,790)
EXPENDITURES			
Personnel and Fringe Benefits	2,191,419	1,925,276	266,143
Contractual and Professional Services	254,700	149,377	105,323
Student Activities	152,671	68,423	84,248
Supplies	152,700	88,680	64,020
Insurance	27,883	25,770	2,113
Equipment	79,000	25,266	53,734
Training	-	12,526	(12,526)
Utilities	14,300	853	13,447
Travel	-	23,723	(23,723)
Lease	15,000	7,919	7,081
Other	105,000	50,693	54,307
Total Expenditures	2,992,673	2,378,506	614,167
Excess of Revenues Over Expenditures	700,996	946,373	245,377
Other Financing Uses			
Transfers Out	-	(733,135)	(733,135)
Net Change in Fund Balance	700,996	213,238	(487,758)
Fund Balance -- June 30, 2015	2,531,220	2,531,220	-
Fund Balance -- June 30, 2016	\$ 3,232,216	\$ 2,744,458	\$ (487,758)

The accompanying notes to required supplementary information are an integral part of this statement.

ISNA WICA OWAYAWA

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SUPPORT PROGRAMS FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	Original and Final Budget	Actual- Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES			
Revenue from Federal Sources	\$ 1,419,555	\$ 1,397,383	\$ (22,172)
Revenue from State Sources	152,445	163,348	10,903
Charges for Services	-	6,722	6,722
Miscellaneous Revenue	-	65,255	65,255
Total Revenues	1,572,000	1,632,708	60,708
EXPENDITURES			
Personnel and Fringe Benefits	551,434	535,607	15,827
Equipment	94,000	105,008	(11,008)
Utilities	177,500	177,082	418
Contractual and Professional Services	145,800	121,664	24,136
Food Supplies	120,500	140,259	(19,759)
Supplies	73,568	44,350	29,218
Insurance	63,500	34,345	29,155
Repairs and Maintenance	42,000	25,306	16,694
School Board	12,000	16,084	(4,084)
Debt Service	-	127,709	(127,709)
Travel	72,000	9,344	62,656
Leases	-	12,825	(12,825)
Other	5,000	10,764	(5,764)
Training	-	1,317	(1,317)
Total Expenditures	1,357,302	1,361,664	(4,362)
Excess of Expenditures Over Revenues	214,698	271,044	56,346
Other Financing Uses			
Transfers Out	-	(373,794)	(373,794)
Net Change in Fund Balance	214,698	(102,750)	(317,448)
Fund Balance -- June 30, 2015	163,470	163,470	-
Fund Balance -- June 30, 2016	\$ 378,168	\$ 60,720	\$ (317,448)

The accompanying notes to required supplementary information are an integral part of this statement.

ISNA WICA OWAYAWA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

(1) Basis of Presentation

The Budgetary Comparison Schedules have been prepared on the modified accrual basis of accounting.

(2) Budgets and Budgetary Accounting

The School did not formally document the approval of their annual budget during the year ended June 30, 2016. The School would normally follow these procedures in establishing the budgetary data reflected in the financial statements:

A tentative budget with projected revenue for program operations for the following school year shall be submitted to the Board for approval at the annual April meeting.

The Board shall approve the tentative annual budget two months prior to the end of contracts based on information, salary schedules and data submitted by the Principal.

The Principal and Chief Financial Officer shall advise the Board of the need for any changes and provide the Board with proposed revisions for the approval prior to any changes being implemented.

Unexpended appropriations lapse at year end unless encumbered by resolution of the governing board. The School did not encumber any amounts at June 30, 2016 or June 30, 2015.

SINGLE AUDIT INFORMATION



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

Board of Education
Isna Wica Owayawa
Oglala, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund, of **ISNA WICA OWAYAWA (Loneman School)** (the School) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 9, 2017. We were engaged to audit the aggregate remaining fund information of the School for the year ended June 30, 2016. Our report disclaims an opinion on the aggregate remaining fund information because of missing substantiating documentation.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected, on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as #2016-001, 2016-002, 2016-003, 2016-004, and 2016-005, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Isna Wica Owayawa

School's Response to Findings

The School's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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



KETEL THORSTENSON, LLP
Certified Public Accountants

March 9, 2017



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Education
Isna Wica Owayawa
Oglala, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the compliance of **ISNA WICA OWAYAWA (Loneman School)** (the School) with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2016. The School's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Programs

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as findings #2016-003, 2016-004, 2016-005, and 2016-006. Our opinion on each major federal program is not modified with respect to these matters.

The School's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

Our consideration of the 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 the internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as #2016-001, 2016-002, 2016-003, 2016-004, 2016-005, and 2016-006 that we consider to be material weaknesses.

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

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



KETEL THORSTENSON, LLP
Certified Public Accountants

March 9, 2017

ISNA WICA OWAYAWA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016**

A. SUMMARY OF AUDIT RESULTS

1. The Independent Auditor's Report expresses an unmodified opinion on all of the financial statements of Isna Wica Owayawa (the School), except for a disclaimer of opinion expressed on the aggregate remaining fund information.
2. Material weaknesses disclosed during the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of the School were disclosed during the audit.
4. Material weaknesses disclosed during the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for the School expresses unmodified opinions on all major programs, as listed in #7.
6. Audit findings relative to the major federal award program for the School are reported in Part C of this schedule.
7. The programs tested as major programs include the following:

Major Programs	CFDA #'s
<i>U.S. Department of the Interior—Bureau of Indian Affairs:</i>	
Indian School Equalization Program	15.042
Indian Schools Student Transportation	15.044
8. The threshold for distinguishing types A and B programs was \$750,000.
9. The School was not determined to be a low risk auditee.

ISNA WICA OWAYAWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2016

B. Findings – Financial Statement Audit

Material Weaknesses

2016-001 FINDING: Financial Statement and Schedule of Expenditures of Federal Awards (SEFA) Preparation

Federal Program Affected: This finding relates to all major programs identified in Part A, #7 of the Schedule of Findings and Questioned Costs.

Compliance Requirement: Reporting

Condition and Cause: We were requested to draft the audited financial statements, related footnote disclosures, and the SEFA as part of our regular audit services. Auditing standards require auditors to communicate this situation to the School Board as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the School's financial statements, footnotes, and SEFA, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do this for the School at the same time in connection with our audit. This is not unusual for schools of your size.

Criteria and Effect: The auditee should prepare the financial statements and SEFA. Internal controls should be in place to prevent material misstatements to the financial statements and SEFA. Audit standards indicate the audit firm should not be a part of the internal control process. It is our responsibility to inform the School Board that this deficiency could result in a material misstatement to the financial statements and SEFA that would have not been prevented or detected by the School's management.

Questioned Costs: None

Recommendation: The School should implement review procedures for the externally prepared financial statements. The School should address the risks associated with the audit firm's preparation of the financial statements and the SEFA and decide to accept this degree of risk or assign appropriate qualified staff or an outside consultant to complete and review the annual financial statements.

Response/Corrective Action Plan: The School agrees with the above finding. See attached Corrective Action Plan.

2016-002 FINDING: Audit Adjustments

Federal Program Affected: This finding relates to all major programs identified in Part A, #7 of the Schedule of Findings and Questioned Costs.

Compliance Requirement: Allowable Costs/Cost Principles, Activities Allowed or Unallowed, and Reporting

Condition and Cause: During the course of our engagement, we identified and proposed material audit adjustments and significant changes to the presentation of the financial statements and SEFA. Adjustments were made to a majority of balance sheet accounts and numerous revenue and expenditure accounts, to include reallocation and reclassification entries. We also noted inconsistent classification of expenditures between natural classifications. Additionally, we noted the School did not maintain sufficient documentation to support their fiduciary liability for monies received from students for student activities. No process was in place to reconcile the general ledger to subsidiary ledgers at year end, to include the fiduciary liability accounts.

ISNA WICA OWAYAWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2016

B. Findings – Financial Statement Audit (Continued)

Material Weaknesses (Continued)

2016-002 FINDING: Audit Adjustments (Continued)

Criteria and Effect: It is management’s responsibility to determine if the financial statements and SEFA are complete and free of material misstatements. Sufficient review of financial statements and expenditures on a regular basis will identify adjustments that need to be made for accurate financial statements. These adjustments were not recorded as part of the School’s existing internal controls, and therefore, resulted in a material misstatement of the School’s financial statements and to the SEFA. Inconsistencies noted also reflect inadequate monitoring of control procedures, including an inability by the School Board to monitor financial activity due to a lack of complete reconciliation processes throughout the year and inaccurate expenditure coding within the general ledger. Additionally, we expressed a disclaimer of opinion on the on the aggregate remaining fund information of the School.

Questioned Costs: None

Recommendation: Adjustments necessary to comply with accounting principles generally accepted in the United States of America should be identified and recorded prior to the audit process. The School should identify and implement year end processes to adjust accounts to the actual balance based on subsidiary ledgers. We also recommend account coding be monitored to ensure expenditures are being consistently recorded in the general ledger. The School should also implement procedures to track their student activities and record them in the School’s general ledger as part of the financial statements.

Response/Corrective Action Plan: The School agrees with the above finding. See attached Corrective Action Plan.

2016-003 FINDING: Budget Monitoring/Loaning of Advanced Funds

Federal Program Affected: Indian School Equalization Program (CFDA #15.042)

Compliance Requirement: Cash Management

Condition and Cause: The School did not formally document the approval of the annual budget for the 2015/2016 school year. In prior years, the School did not have cash to cover the total restricted fund balance, therefore cash was spent from other funds when no cash was available.

At June 30, 2016, amounts loaned to other grants totaled \$233,840.

Amount loaned at June 30, 2015	\$ 1,407,734
Change during year	(1,173,894)
<u>Amount loaned at June 30, 2016</u>	<u>\$ 233,840</u>

ISNA WICA OWAYAWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2016

B. Findings – Financial Statement Audit (Continued)

Material Weaknesses (Continued)

2016-003 FINDING: Budget Monitoring/Loaning of Advanced Funds (Continued)

Criteria and Effect: Budgets are a tool to be used by management to monitor expenditures throughout the year to assure there are available funds to cover all expenditures and should include budgeted revenue amounts to aid in a full analysis of the financials. It is management's responsibility to control expenditures to assure the School stays within the funding available each year. Overspending in prior years and contested Bureau of Indian Education bills of collection have led to a general fund deficit accumulation of \$3,199,396 at year end. A going concern footnote is included in the financial statements. P.L. 100-297 requires excess cash to be deposited only in obligations of the United States or obligations insured, secured, or guaranteed by the United States. The School may not "loan" these advanced funds to their general fund or use it to cash flow other Federal funds. In addition to violating the provisions of the P.L. 100-297 and risking censure from BIA and loss of future grant funds, the School also is not receiving the benefit of earnings on advanced funds.

Questioned Costs: None

Recommendation: Management and the Board should document approval of a budget prior to the start of the fiscal year in board minutes and diligently review the School's budget to actual on at least a monthly basis. Expenditures also need to be appropriately coded at the time of occurrence based on the actual use of the items or services purchased. Employees filling out purchase orders, to include account coding, adds another layer of review to the coding and allows the reviewer to make changes prior to the expenditure being entered into the accounting system. Budget to actual reports also need to be monitored to ensure the School is not overspending grant funds awarded. The general fund currently does not have any resources to cover spending in excess of grant awards; therefore budgeted expenditures for the general fund should not exceed the amount of revenue that is projected for the year.

Policies should be implemented to monitor the cash flow of the School, in order to assure sufficient funds are available to cover any future grant carryover. Interest earned with the advanced funds should be used to reduce the deficit. In addition, we recommend continued communication with granting agencies to resolve funding issues.

Response/Corrective Action Plan: The School agrees with the above finding. See attached Corrective Action Plan.

2016-004 FINDING: Monitoring of Controls

Federal Program Affected: This finding relates to all major programs identified in Part A, #7 of the Schedule of Findings and Questioned Costs.

Compliance Requirement: Equipment and Real Property Management, Suspension and Debarment, and Special Tests and Provisions – Collateralization of Bank Accounts and Character Investigations

Condition and Cause: During the audit process we noted deficiencies in internal controls. Control deficiencies were caused throughout the year by turnover within the business office. Specific instances noted included:

1. Bank reconciliations were not reconciled on a regular basis or reviewed. Numerous transactions on the bank reconciliation were older items that needed to be cleared prior to a month being closed out.
2. There was no regular review of bank collateralization to determine if the School's funds are properly insured for amounts over the FDIC insurance threshold.
3. The property inventory listing does not include tracking of the funding source used to purchase the capital asset and included no indication of proper review. There was also no physical inventory count performed biannually per the compliance requirement.
4. IT controls need strengthened. The School does not have a formal written policy on computer controls, to include monitoring employee usage and safeguarding financial data. The School also does not have a contingency plan to restore accounting data in the event main data is destroyed.

ISNA WICA OWAYAWA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2016**

B. Findings – Financial Statement Audit (Continued)

Material Weaknesses (Continued)

2016-004 FINDING: Monitoring of Controls (Continued)

Condition and Cause (Continued):

5. For part of the year, no review of manual journal entries was performed.
6. The School does not maintain documentation of the adjudication process for exceptions noted on employee background checks.
7. The School does not have written policies pertaining to suspension and debarment and bank collateralization compliance requirements.

Criteria and Effect: Internal controls should be continually monitored to ensure they have been implemented as designed. A strong review function is a necessary part of any internal control system and the effectiveness of the internal control system relies on enforcement by management. Additionally, the lack of preparation of bank reconciliations on a timely basis does not ensure the financial statements presented to the Board are complete to make sound business decisions. 25 USC 450e-3 requires deposits to be fully collateralized. If bank accounts are not fully collateralized, the School increases its risk of losing deposits in the case of bank failure. Uniform Guidance requires equipment records to include funding source and for inventory counts to be performed biannually. The lack of a written policy regarding computer controls and cellphone passwords may cause improper use of the School's computers. No procedures are currently in place if a disaster were to occur leading to slow recovery, if possible, of accounting data. As manual journal entries are not reviewed, this leaves the financial assets of the School susceptible to misappropriation of assets and possible misstatements of the financial information. Uniform Guidance requires proper documentation of the adjudication process related to background checks. Uniform Guidance also requires written policies regarding compliance requirements that are applicable to each funding source. The effects of deficiencies in monitoring of internal controls can result in undetected errors or omissions or misappropriation of assets of the School.

Questioned Costs: None

Recommendation: Specific recommendations are the following:

1. Bank reconciliations should be prepared on a timely basis without exceptions and reviewed after receiving the bank statement and before financial statements are printed out for the Board's review.
2. The business office should obtain the bank collateralization report from the bank, at least quarterly, to ensure the School's accounts are adequately collateralized.
3. The School should update their capital asset tracking to include funding source to be compliant with the requirements. A physical inventory count should be performed at least biannually.
4. A formal policy and procedures manual should be developed for computer controls, to include usage monitoring and safeguarding policies for financial information. The School should also develop a contingency plan in order to be prepared for the continuation of business after the occurrence of an extraordinary event.
5. Journal entries should be reviewed by an appropriate level supervisor or administrator to ensure propriety and necessity of the entry.
6. The School should implement procedures to document the adjudication process when exceptions are noted on employee background checks, to include review of the decision reached.
7. The School should approve policies related to suspension and debarment and bank collateralization.

Response/Corrective Action Plan: The School agrees with the above finding. See attached Corrective Action Plan.

ISNA WICA OWAYAWA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2016**

B. Findings – Financial Statement Audit (Concluded)

Material Weaknesses (Concluded)

2016-005 FINDING: Testing Errors

Federal Programs Affected: Indian School Equalization Program (CFDA #15.042), Indian Schools Student Transportation (CFDA #15.044), and Administrative Cost Grants for Indian Schools (CFDA #15.046) (nonmajor program)

Compliance Requirement: Allowable Costs/Cost Principles, Activities Allowed or Unallowed

Condition and Cause: We noted the following errors during our sample testing of payroll and non-payroll disbursement transactions:

1. We noted one nonpayroll expenditure, out of a sample of 156, that was unallowable to the program in which they were charged to.
2. We noted three payroll expenditures, out of a sample of 156, in which substantiating documentation, including timesheets showing allocation between funds, was missing to determine allowability with the federal program.
3. We noted two payroll expenditures, out of a sample of 156, in which the employees were underpaid according to the rate approved on their contracts.
4. We noted one nonpayroll expenditure, out of a sample of 156, that was missing indication of approval for a journal entry.

Criteria and Effect: Uniform Guidance requires expenditures to follow the allowable costs as outlined in the grant agreements and also requires adequate documentation, including allocation of expenditures over multiple funds, of all federal disbursements. Lack of adequate documentation and/or expenditures that are not allowable could result in questioned costs.

Questioned Costs: \$870 Administrative Cost Grants for Indian Schools (CFDA #15.046)

Recommendation: Office personnel that are in charge of preparing purchase orders, assigning disbursement account codes, reviewing invoices, and signing checks should receive relevant education in allowable costs for all programs in which they will be performing these duties. Control processes regarding recordkeeping and maintenance of substantiating documentation, specifically allocation of time between funds, should be maintained and reviewed to ensure documentation is being kept as evidence of the propriety of the expenditure. Contracts should be compared to the rates entered into the software to ensure employees are being paid the approved rate. All journal entries should be reviewed and such review should be indicated by initials on the journal entry documentation.

Response/Corrective Action Plan: The School agrees with the above finding. See attached Corrective Action Plan.

ISNA WICA OWAYAWA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)
JUNE 30, 2016**

C. Findings and Questioned Costs – Major Federal Award Program Audit

The findings #2016-001, #2016-002, #2016-003, #2016-004, and #2016-005 listed in Part B related to major programs as noted in each individual finding.

Material Weakness

2016-006 FINDING: Grant Reporting

Federal Program Affected: This finding relates to all major programs identified in Part A, #7 of the Schedule of Findings and Questioned Costs.

Compliance Requirement: Reporting

Condition and Cause: Two of the quarterly Form SF-425 reports for fiscal year 2016 were filed late. The School did not have adequate policies and procedures in place for preparation and review of required compliance reports.

Criteria and Effect: Grant conditions for the above mentioned major programs require quarterly financial reports to be filed timely. Failure to submit these reports timely could lead to sanctions related to Federal funding if compliance requirements continue to not be met.

Questioned Costs: None

Recommendation: We recommend controls be designed and implemented to ensure required reports are prepared and reviewed properly based on general ledger information and filed timely with the respective funding offices.

Response/Corrective Action Plan: The School agrees with the above finding. See attached Corrective Action Plan.

ISNA WICA OWAYAWA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CONTRACT NUMBER	CFDA NUMBER	EXPENDITURES
U.S. Department of the Interior -- Bureau of Indian Affairs:			
<i>Direct Funding:</i>			
Indian School Equalization Program	A15AV00601	15.042	\$ 2,063,515
Indian Schools Student Transportation	A15AV00601	15.044	497,416
Administrative Cost Grants for Indian Schools	A15AV00601	15.046	538,900
Indian Education Facilities, Operations, and Maintenance	A15AV00601	15.047	463,819
Education Enhancements	A15AV00601	15.151	68,258
Total U.S. Department of Interior -- Bureau of Indian Affairs			3,631,908
U.S. Department of Education			
<i>Pass-Through Funding - U.S. Department of Interior -- Bureau of Indian Affairs</i>			
Title I Grants to Local Education Agencies (Note 3)	A15AV00601	84.010	397,567
Special Education Part B	A15AV00601	84.027	480,942
Education for Homeless Children and Youth (Note 3)	A15AV00601	84.196	26,000
Twenty-First Century Community Learning Centers	A15AV00601	84.287	16,182
Title VI Part B - Rural Education	A15AV00601	84.358	2,560
<i>Pass-Through Funding - Shannon County School District 65-1</i>			
Impact Aid	S041B-2016-4664	84.041	11,246
<i>Pass-Through Funding - Oglala Sioux Tribe - Tribal Education</i>			
Suicide Prevention (Champion of Hope)	A15AV00706	84.184S	2,387
<i>Direct Funding:</i>			
Indian Education Grants to Local Education Agencies	S060A151074	84.060A	40,717
Total U.S. Department of Education			977,601
U.S. Department of Agriculture			
<i>Pass-Through the S.D. Department of Education</i>			
Child Nutrition Cluster:			
National School Lunch Program (Note 2)	65-30700	10.555	98,034
School Breakfast Program (Note 2)	65-30700	10.553	53,428
Total Child Nutrition Cluster			151,462
Fresh Fruit and Vegetable Program	65-30700	10.582	11,886
Total U.S. Department of Agriculture			163,348
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 4,772,857

ISNA WICA OWAYAWA

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016**

(1) Basis of Accounting

The School follows the modified accrual basis of accounting in the preparation of the schedule of expenditures of federal awards.

(2) Reimbursements

These amounts reflect cash received. Federal reimbursements are based on approved rates for services provided rather than reimbursement for specific expenditures.

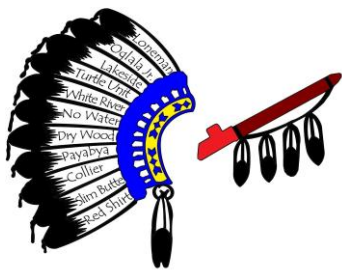
(3) School-wide Program

These grants were included as part of the School-wide Title I Program.

(4) De Minimis

The School did not elect to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

MANAGEMENT RESPONSE



Isna Wica Owayawa

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS JUNE 30, 2016

Status of Prior Audit Findings and Recommendations:

Finding 2015-001: The School is confident the financial statements are accurate and is willing to accept the risk associated with the auditors preparing the financial statements; therefore, this finding, originally issued in 2010, will be repeated for the year ending June 30, 2016 as 2016-001.

Finding 2015-002: The School continues to work on having all adjustments made prior to the annual audit, but the results of the current audit resulted in significant audit adjustments; therefore, this finding, originally issued in fiscal year 2011, will be repeated for the year ending June 30, 2016 as 2016-002. The recurrence of the finding is due to a lack of processes in place to reconcile year end account balances to subsidiary ledgers and turnover that occurred within the business office during the year.

Finding 2015-003: In the past few years, the School has implemented broad changes in monitoring the budget to actual expenditures throughout the year, but still struggles to stay within the funding parameters for certain funds; therefore, this finding, originally issued in 2006, will be repeated for the year ending June 30, 2016 as 2016-003. The recurrence of the finding is due to a historical issue at the School of overexpenditure of federal funds and the School being limited to revenue from grants with restrictions on allowable costs.

Finding 2015-004: The School continues to update and implement internal control processes when possible, but the results of the current audit resulted in additional deficiencies being noted; therefore, this finding, originally issued in fiscal year 2006, will be repeated for the year ending June 30, 2016 as 2016-004. The recurrence of the finding is due to turnover within the business office during the year.

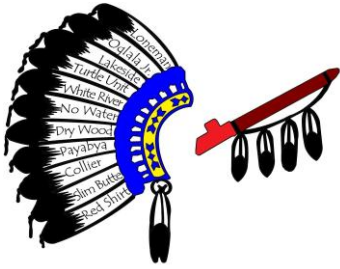
Finding 2015-005: The School has procedures in place to review expenditures for allowability and reasonableness, but the results of the current audit resulted in errors related to missing documentation substantiating charges and unallowable costs; therefore, this finding, originally issued in fiscal year 2006, will be repeated for the year ending June 30, 2016 as 2016-005. The recurrence of the finding is due to inconsistencies of business office staffing.

Finding 2015-006: The School implemented procedures to complete semi-annual certifications during the year; therefore, this finding was corrected and will not be repeated for the year ending June 30, 2016.

Finding 2015-007: The School implemented procedures related to the filing of SF-425 reports but these procedures were not followed during the current year; therefore, this finding, originally issued in fiscal year 2013, will be repeated for the year ending June 30, 2016 as 2016-006. The recurrence of the finding is due to turnover within the business office during the year.

Finding 2015-008: The School strives to meet all deadlines for filing requirements and through the diligent work of the business office the deadline for filing the audit report and related data collection form was met in the current year; therefore, this finding was corrected and will not be repeated for the year ending June 30, 2016.

Finding 2015-009: The School implemented additional procedures during the year and made progress in relation to the review of the employees' background checks. The results of the current audit noted no instances of expired or missing background checks for the current year; therefore, this finding was corrected and will not be repeated for the year ending June 30, 2016.



Isna Wica Owayawa

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CORRECTIVE ACTION PLAN JUNE 30, 2016

Isna Wica Owayawa respectfully submits the following corrective action plan for the year ended June 30, 2016.

The findings from the June 30, 2016 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Findings – Financial Statement Audit

Material Weaknesses:

2016-001 FINDING: Financial Statement and Schedule of Expenditures of Federal Awards Preparation

Recommendation: The School should implement review procedures for the externally prepared financial statements. The School should address the risks associated with the audit firm's preparation of the financial statements and the SEFA and decide to accept this degree of risk or assign appropriate qualified staff or an outside consultant to complete and review the annual financial statements.

Action Taken: The School Board will accept the risk associated with the auditor preparing the financial statements and Eileen Olson, the Business Manager, will work on identifying adjustments and implementing new procedures to review transactions and the financial statements with an anticipated completion date of June 30, 2017.

2016-002 FINDING: Audit Adjustments

Recommendation: Adjustments necessary to comply with accounting principles generally accepted in the United States of America should be identified and recorded prior to the audit process. The School should identify and implement year end processes to adjust accounts to the actual balance based on subsidiary ledgers. We also recommend account coding be monitored to ensure expenditures are being consistently recorded in the general ledger. The School should also implement procedures to track their student activities and record them in the School's general ledger as part of the financial statements.

Action Taken: Agency fund activity is being verified with the person in charge of each individual activity account and reconciled to the general ledger. Money is deposited to the appropriate fund as it is received and disbursed through the accounts payable process. The Business Office will identify and post year-end adjustments. Account coding is being reviewed as part of the accounts payable process. Eileen Olson, Business Manager is responsible for this corrective action plan with an anticipated completion date of March 31, 2017.

2016-003 FINDING: Budget Monitoring/Loaning of Advanced Funds

Recommendation: Management and the Board should document approval of a budget prior to the start of the fiscal year in board minutes and diligently review the School's budget to actual on at least a monthly basis. Expenditures also need to be appropriately coded at the time of occurrence based on the actual use of the items or services purchased. Employees filling out purchase orders, to include account coding, adds another layer of review to the coding and allows the reviewer to make changes prior to the expenditure being entered into the accounting system. Budget to actual reports also need to be monitored to ensure the School is not overspending grant funds awarded. The general fund currently does not have any resources to cover spending in excess of grant awards; therefore budgeted expenditures for the general fund should not exceed the amount of revenue that is projected for the year.

2016-003 FINDING: Budget Monitoring/Loaning of Advanced Funds (Continued)

Action Taken: The School Board reviews revenue, budget and expenditure reports on a monthly basis prepared by the Business Manager and reviewed by the Principal. The budget was approved by the School Board for school year 2017. The expenditures will not exceed revenue generated. Management of the School is looking into all possible areas to reduce costs and decrease overspending. Eileen Olson, Business Manager, is responsible for this corrective action plan with most recommendations already implemented at the audit report date and an ongoing completion date for identifying revenue sources to be used to reduce the loaning of advanced funds.

2016-004 FINDING: Monitoring of Controls

Recommendation: Specific recommendations are the following:

1. Bank reconciliations should be prepared on a timely basis without exceptions and reviewed after receiving the bank statement and before financial statements are printed out for the Board's review.
2. The business office should obtain the bank collateralization report from the bank, at least quarterly, to ensure the School's accounts are adequately collateralized.
3. The School should update their capital asset tracking to include funding source to be compliant with the requirements. A physical inventory count should be performed at least biannually.
4. A formal policy and procedures manual should be developed for computer controls, to include usage monitoring and safeguarding policies for financial information. The School should also develop a contingency plan in order to be prepared for the continuation of business after the occurrence of an extraordinary event.
5. Journal entries should be reviewed by an appropriate level supervisor or administrator to ensure propriety and necessity of the entry.
6. The School should implement procedures to document the adjudication process when exceptions are noted on employee background checks, to include review of the decision reached.
7. The School should approve policies related to suspension and debarment and bank collateralization.

Action Taken:

Eileen Olson, Business Manager, is responsible for this corrective action plan unless otherwise noted.

1. As of the report date, bank reconciliations are completed by the Business Office upon receipt of the bank statement and transactions are being reviewed online randomly.
2. As of the report date, bank collateralizations are being requested at a minimum of once per quarter.
3. The Property and Supply Clerk, Perry Mesteth, will specify the source of funding for all current and future acquisitions. The Property and Supply Clerk will be responsible for facilitating a physical inventory count at least every two years. The anticipation completion date is June 30, 2017.
4. A formal policy for technology has been prepared and submitted to the Principal for review as of the report date. A backup of the accounting system is also prepared and maintained off of school premises.
5. Journal entries are currently being prepared by one employee and reviewed and posted by a second employee.
6. The Human Resources Clerk, Yvonne Crow, will note any exceptions on background checks and the final decision related to any exceptions noted. Any adjudication process will be documented along with the decision made with processes implemented prior to the report date.
7. Written policies are being prepared by the business office and will be reviewed and approved by the School Board prior to June 30, 2017.

2016-005 FINDING: Testing Errors

Recommendation: Office personnel that are in charge of preparing purchase orders, assigning disbursement account codes, reviewing invoices, and signing checks should receive relevant education in allowable costs for all programs in which they will be performing these duties. Control processes regarding recordkeeping and maintenance of substantiating documentation, specifically allocation of time between funds, should be maintained and reviewed to ensure documentation is being kept as evidence of the propriety of the expenditure. Contracts should be compared to the rates entered into the software to ensure employees are being paid the approved rate. All journal entries should be reviewed and such review should be indicated by initials on the journal entry documentation.

2016-005 FINDING: Testing Errors (Continued)

Action Taken: Business Office staff, Principal, and School Board are reviewing expenditures for allowableness and compliance with grant conditions. Documentation is maintained to support all expenditures and variances in payroll. Eileen Olson, Business Manager, is responsible for this corrective action plan and all action has been implemented as of the report date.

Findings – Federal Award Programs Audits

Material Weakness

2016-006 FINDING: Grant Reporting

Recommendation: We recommend controls be designed and implemented to ensure required reports are prepared and reviewed properly based on general ledger information and filed timely with the respective funding offices.

Action Taken: Reports related to grant funding (SF-425), Federal Form 941, Nebraska Form 941N, and South Dakota unemployment forms have been added to the Business Manager's job description and also included in the financial policy handbook. All reports have been filed by their due dates as of the report date. Eileen Olson, Business Manager, is responsible for this corrective action plan.