



Financial Statements
June 30, 2017

Lake Region Special Education District

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Lake Region Special Education District
School Board and Administration (Unaudited)
Year Ended June 30, 2017

School Board

Name	District	Position
Jean Callahan	Minnewaukan	Board President
Scott Privratsky	Devils Lake	Board Vice-President
Jay Slade	Dakota Praire	Board Member
Frank Schill	Edmore	Board Member
Joe Harder	Lakota	Board Member
Daren Christianson	Langdon Area	Board Member
Robert Bubach	Leeds	Board Member
Lee Kelm	Maddock	Board Member
Chuck Dunlop	Munich	Board Member
Jeff Hagler	North Star	Board Member
Larry Volk	Starkweather	Board Member
Dean Dauphinais	Warwick	Board Member

Administration

Bette Nelson	Director
Lori Wilhelmi	Business Manager



Independent Auditor's Report

To the School Board
Lake Region Special Education District
Devils Lake, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Lake Region Special Education District, Devils Lake, North Dakota, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the government activities and the major fund of Lake Region Special Education District as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lake Region Special Education District's financial statements. The school board and administration and individual fund schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (Part 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements.

The individual fund schedules and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2018 on our consideration of the Lake Region Special Education District'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lake Region Special Education District's 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 Lake Region Special Education District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
January 31, 2018

This section of the annual financial report for Lake Region Special Education District (the District) presents management's discussion and analysis of the financial performance of the Lake Region Special Education District during the fiscal year that ended on June 30, 2017. This information is presented in conjunction with the audited financial statements of Lake Region Special Education District, which immediately follow this section.

Financial Highlights

Key financial highlights for the 2016-2017 fiscal year include the following:

- Current year revenues totaled approximately \$6,517,000 and expenditures totaled approximately \$6,500,000 which resulted in an increase in fund balance of approximately \$16,000.
- The total liabilities is approximately \$4,908,000. This includes accounts payable, accrued wages and benefit payable, compensated absences, and net pension liabilities.
 - At year-end, the District had approximately \$4,365,000 in net pension liability.

Overview of the Financial Statements

The annual report consists of three parts - Independent Auditors' Report, required supplementary information, which includes the Management's Discussion and Analysis, and the Financial Statements. The financial statements include two kinds of statements that present different views of the District.

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The general fund statements tell how basic services such as administration and special education were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The following outline shows how the various parts of this annual report are arranged and related to one another.

1. Management's Discussion and Analysis
2. Basic Financial Statements
 - District-Wide Financial Statements
 - Fund Financial Statements
3. Additional Reports
 - Schedule of Expenditures of Federal Awards

Footnote 1 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-Wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources – is one way to measure the District's financial health or position.

In the district-wide financial statements the District's activities are shown in as governmental activities. This covers the District's basic services of special education and administration.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's general fund. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

The District has only the general fund. The general fund is a governmental fund that focuses on:

1. how cash and other financial assets that can readily be converted to cash flow in and out and
2. the balances left at year-end that are available for spending.

Consequently, the general fund statements provide a detailed *short-term* view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the general fund statements that explains the relationship (or differences) between them.

Financial Analysis of the District as a Whole

Net position – The District's combined net deficit was approximately \$2,254,000 on June 30, 2017.

Statement of Net Position
June 30, 2017 and 2016

	2017	2016
Assets		
Current assets	\$ 1,529,629	\$ 1,334,814
Capital assets	482,424	484,928
Total assets	2,012,053	1,819,742
Deferred Outflows of Resources	1,054,847	754,277
Liabilities		
Other liabilities	465,288	388,215
Long-term liabilities	4,443,478	4,143,751
Total liabilities	4,908,766	4,531,966
Deferred Inflows of Resources	411,715	311,341
Net Position (Deficit)		
Net investment in capital assets	482,424	484,928
Unrestricted	(2,736,005)	(2,754,216)
Total net position	\$ (2,253,581)	\$ (2,269,288)

Statement of Activities
Years Ended June 30, 2017 and 2016

	2017	2016
Revenues		
Program revenues		
Charges for service	\$ 872,847	\$ 802,160
Operating grants and contributions	1,132,107	1,119,827
General		
District assessments	332,997	344,028
State aid - unrestricted	4,092,841	3,612,327
Miscellaneous revenues	85,998	72,481
Total revenues	6,516,790	5,950,823
Expenses		
Administration	428,864	414,148
Instruction	4,917,713	4,179,484
Restricted	1,132,107	1,119,827
Depreciation - unallocated	22,399	21,611
Total expenses	6,501,083	5,735,070
Change in Net Position	15,707	215,753
Net Position- Beginning	(2,269,288)	(2,485,041)
Net Position - Ending	\$ (2,253,581)	\$ (2,269,288)

Total revenue is comprised primarily of federal funds, to cover eligible expenditures, and fees for services from our member school districts.

Total costs of all programs and services were approximately \$6,501,000. The District's expenses are entirely related to educating and caring for special education students and the administration of those services.

Total revenues exceeded expenses, increasing net position by approximately \$16,000.

Financial Analysis of the District's General Fund

The financial performance of the District as a whole is reflected in its general fund. The general fund completed the year with a fund balance of approximately \$1,064,000 which is an increase of approximately \$118,000 from the prior year.

General Fund

The General Fund includes the primary operations of the District in providing special educational services to students and the administration of those services.

The following schedule presents a summary of General Fund Revenues.

	Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2017	2016		
Other local sources	\$ 418,995	\$ 416,509	\$ 2,486	0.6%
State sources	4,092,841	3,612,327	480,514	13.3%
Federal sources	1,201,391	1,194,730	6,661	0.6%
Interdistrict sources	803,563	727,258	76,305	10.5%
Total General Fund Revenues	\$ 6,516,790	\$ 5,950,824	\$ 565,966	9.5%

Total General Fund Revenue increased by approximately \$566,000 or 9.5% from the previous year. The District continues to maximize the use of federal funds which allows the District to help keep their costs to the districts low.

The following schedule presents a summary of General Fund Expenditures.

	Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2017	2016		
Salaries and benefits	\$ 3,476,426	\$ 3,382,343	\$ 94,083	2.8%
Purchased services	901,190	845,375	55,815	6.6%
Supplies, materials and travel	2,003,854	1,497,951	505,903	33.8%
Capital expenditures	14,702	14,746	(44)	-0.3%
Other expenditures	2,876	3,264	(388)	-11.9%
Total General Fund Expenditures	\$ 6,399,048	\$ 5,743,679	\$ 655,369	11.4%

Total General Fund Expenditures increased by approximately \$655,000 or 11.4% from the previous year. The District had an increase in purchased services and supplies, materials and travel.

General Fund Budgetary Highlights

A summary of the Lake Region Special Education District actual financial results for fiscal year 2017 as compared to budget is presented below.

Total revenue is comprised primarily of federal funds and from fees for services from our member school districts. Total revenues were approximately \$242,000 more than budget for the year ended June 30, 2017.

From an expense standpoint, total expenses were over budget by approximately \$147,000. Expenditures are broken down by departmental area. In general, Lake Region Special Education District has attempted to operate in a conservative manner and contain costs where appropriate.

Long-Term Liabilities

At year-end, the District had approximately \$4,443,000 in long-term liabilities. The majority of this amount is the District's net pension liability at year end.

Factors Bearing on the Future of the Lake Region Special Education District

The Lake Region Special Education District has benefited from adequate support of member school districts. The District has also benefited from continued funding from the State of North Dakota. These elements have enabled the District to meet many of its instructional and administrative staffing needs.

Contacting the Financial Management of the Lake Region Special Education District

This financial report is designed to provide the user a general overview of the financial results of Lake Region Special Education District. If you have any questions about this report or would like additional information, contact the Business Manager, Lake Region Special Education District, 801 5th Ave. SE, Devils Lake, North Dakota 58301.

Lake Region Special Education District
Statement of Net Position
June 30, 2017

Assets	
Cash and cash equivalents	\$ 1,278,159
Due from other government	38,036
Due from federal government	213,434
Total current assets	1,529,629
Capital Assets	
Building	543,969
Equipment	11,664
Vehicles	148,899
Less accumulated depreciation	(222,108)
Total capital assets, net of depreciation	482,424
Total Assets	2,012,053
Deferred Outflows of Resources	
Pension plans	1,054,847
Liabilities	
Accounts payable	62,988
Accrued wages and benefits payable	402,300
Long-term liabilities	
Portion due within one year - compensated absences	78,763
Net pension liability - due in more than one year	4,364,715
Total liabilities	4,908,766
Deferred Inflows of Resources	
Pension plans	411,715
Net Position	
Net invested in capital assets	482,424
Unrestricted	(2,736,005)
Total net position	\$ (2,253,581)

Lake Region Special Education District
Statement of Activities
Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities				
Administration	\$ 428,864	\$ -	\$ -	\$ (428,864)
Instruction	4,917,713	872,847	-	(4,044,866)
Restricted	1,132,107	-	1,132,107	-
Depreciation-unallocated	22,399	-	-	(22,399)
Total governmental activities	<u>\$ 6,501,083</u>	<u>\$ 872,847</u>	<u>\$ 1,132,107</u>	<u>(4,496,129)</u>
General Revenues				
District Assessments				332,997
Revenue from State Sources				
State Foundation Aid				4,092,841
Other General Revenues				85,998
Total general revenues				<u>4,511,836</u>
Changes in net position				15,707
Net position - beginning				<u>(2,269,288)</u>
Net position - ending				<u>\$ (2,253,581)</u>

Lake Region Special Education District
Governmental Fund
Balance Sheet
June 30, 2017

Assets	
Cash and cash equivalents	\$ 1,278,159
Due from other governments	38,036
Due from federal government	<u>213,434</u>
Total assets	<u><u>\$ 1,529,629</u></u>
Liabilities and Fund Balance	
Liabilities	
Accounts payable	\$ 62,988
Accrued wages and benefits payable	<u>402,300</u>
Total liabilities	<u><u>465,288</u></u>
Fund Balance	
Unassigned	<u>1,064,341</u>
Total liabilities and fund balance	<u><u>\$ 1,529,629</u></u>

Lake Region Special Education District
Governmental Fund
Reconciliation of the Balance Sheet to the Statement of Net Position
June 30, 2017

Total Fund Balance - Governmental Fund	\$ 1,064,341
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	482,424
Compensated absences are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(78,763)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	643,132
Long-term liabilities, including severances payable and net pension liability, are not due and payable in the current period and, therefore are not reported reported as a liability in the current period and, therefore, are not reported in the funds.	<u>(4,364,715)</u>
Total Net Position - Governmental Activities	<u><u>\$ (2,253,581)</u></u>

Lake Region Special Education District
 Governmental Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Year Ended June 30, 2017

Revenues	
Local sources	\$ 418,995
Federal sources	1,201,391
State sources	4,092,841
Interdistrict sources	803,563
Total revenues	<u>6,516,790</u>
Expenditures	
Administration	428,864
Special education instruction	1,384,366
Preschool instruction	344,255
Mentally handicapped instruction	313,279
Speech therapy	707,421
Emotionally disturbed	134,009
Learning disabilities	1,056,127
Student contracts	883,646
Unrestricted-State	14,975
Restricted-Federal	1,132,106
Total expenditures	<u>6,399,048</u>
Net Change in Fund Balance	117,742
Fund Balance, Beginning of Year	<u>946,599</u>
Fund Balance, End of Year	<u><u>\$ 1,064,341</u></u>

Lake Region Special Education District
Governmental Fund
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance to the Statement of Activities
Year Ended June 30, 2017

Net Change in Fund Balance - Governmental Fund	\$ 117,742
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense and disposals in the current period.	(2,504)
In the statement of activities compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This is the net effect of these differences in the treatment of long-term debt and related items.	6,312
In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense.	<u>(105,843)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 15,707</u></u>

Lake Region Special Education District
General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
Year Ended June 30, 2017

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Local sources	\$ 447,000	\$ 418,995	\$ (28,005)
Federal sources	1,232,107	1,201,391	(30,716)
State sources	3,862,475	4,092,841	230,366
Interdistrict sources	733,680	803,563	69,883
Total revenues	<u>6,275,262</u>	<u>6,516,790</u>	<u>241,528</u>
Expenditures			
Administration	440,504	428,864	11,640
Special education instruction	1,359,899	1,384,366	(24,467)
Preschool instruction	403,145	344,255	58,890
Mentally handicapped instruction	313,693	313,279	414
Speech therapy	719,722	707,421	12,301
Emotionally disturbed	161,909	134,009	27,900
Learning disabilities	1,055,882	1,056,127	(245)
Student contracts	650,000	883,646	(233,646)
Unrestricted-State	14,975	14,975	-
Restricted-Federal	1,132,106	1,132,106	-
Total expenditures	<u>6,251,835</u>	<u>6,399,048</u>	<u>(147,213)</u>
Net Change in Fund Balance	<u>\$ 23,427</u>	117,742	<u>\$ 94,315</u>
Fund Balance, Beginning of Year		<u>946,599</u>	
Fund Balance, End of Year		<u>\$ 1,064,341</u>	

Note 1 - Summary of Significant Accounting Policies

A. Reporting Entity

The District Board is comprised of member school district superintendents and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. Generally accepted accounting principles require that the financial statements of the reporting entity include those of the Special Education District (the primary government) and its component units. A component unit would be included in the Special Education District's reporting entity because of the significance of their operational or financial relationship with the Special Education District. The criteria established by GASB Statement No. 14 in determining financial accountability includes appointing a voting majority of an organization's governing body and (1) the ability of the school district to impose its will on the organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Special Education District. The Special Education District has no component units as defined in GASB Statement No. 14 which should be included in the reporting entity.

Based on these criteria, there are no organizations considered to be component units of the District.

B. Government-Wide Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other internally directed revenues are reported as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. For capital assets that can be specifically identified with, or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

C. Fund Financial Statement Presentation

Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

1. Revenue Recognition – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District generally considers revenues to be available if they are collected within 60 days after year-end. Revenues from local sources consist primarily of table valuation assessments. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to the North Dakota Department of Public Instruction. Federal revenue is recorded in the year in which the related expenditure is made. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.
2. Recording of Expenditures – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt, severance and healthcare benefits, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are included within the applicable functional areas.

Description of Funds

The District has only one fund which has been established by the North Dakota Department of Public Instruction. A description of the fund included in this report is as follows:

Major Governmental Fund

General Fund – The general fund is the general operating fund of the district. It is used to account for all financial resources except those required to be accounted for in another fund.

D. Other Significant Accounting Policies

Budgeting

An operating budget is adopted by July 1 of each fiscal year for the general fund on the same modified accrual basis used to reflect actual revenues and expenditures. The director is authorized to transfer budget amounts within line items; however, supplemental appropriations that amend total appropriations of any fund require a board resolution. Reported budgeted amounts are as originally adopted or as amended by board resolution. Unencumbered appropriations lapse at year-end.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, money market accounts, and highly liquid investments with an original maturity of three months or less. Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or secured with pledges of securities equal to 110% of the uninsured balance.

State statutes authorize local governments to invest in: a) bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress, b) securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above, c) certificates of deposit fully insured by the federal deposit insurance corporation or the state, d) obligations of the state. Investments are stated at cost. The only investments held by the school district are certificates of deposit.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the school's deposits may not be recovered. State law requires local governments to deposit funds in financial institutions carrying federal deposit insurance and a pledge of governmental securities for deposits in excess of deposit insurance coverage. All school district funds were adequately insured or collateralized by government securities.

Credit risk is the risk that the counterparty of an investment will not fulfill its obligations. The District's policy for limiting the credit risk of investment is to only invest in certificates of deposit fully insured or collateralized by pledge of governmental securities.

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by investing only in certificates of deposit that are quite stable in rate of return and relatively short term.

Receivables

All receivables are shown net of any allowance for uncollectible accounts. No allowances for uncollectible accounts have been recorded.

Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historic cost is not available. The District maintains a threshold level of \$5,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 10 to 50 years.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

Compensated Absences

It is the District's policy to permit employees to accumulate a limited amount of earned but unused sick leave, which will be paid to employees upon separation from school district service.

Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation. The following are funds established by the State for risk management issues:

The District participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The District pays an annual premium to the State Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12 month period. The State Bonding Fund does not currently charge any premium for this coverage.

The District participates in the North Dakota Worker's Compensation Bureau, an Enterprise Fund of the State of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed for the payment of claims to employees injured in the course of employment.

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

Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources, and pension expense, information about the fiduciary net position of the Teachers' Fund for Retirement (TFFR) and the North Dakota Public Employees Retirement System (NDPERS) and additions to and deductions from TFFR's and NDPERS's fiduciary net position have been determined on the same basis as they are reported by TFFR and NDPERS.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end, and changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resource. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item that qualifies for reporting in this category. This item is changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund Balance

The following are classifications of fund balance:

- Nonspendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.
- Restricted fund balances represents a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority which is the School Board through an ordinance or resolution.
- Assigned fund balance represents amounts constrained by the government's intent to be used for specific purposes, but neither restricted nor committed.
- Unassigned fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

The District did not adopt a fund balance policy as of June 30, 2017 therefore there are no committed or assigned fund balances.

Note 2 - Deposits

In accordance with North Dakota statutes, the District maintains deposits at those depositories authorized by the School Board. All such depositories are members of the Federal Reserve System.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may be lost.

At June 30, 2017, the District had deposits of \$1,278,159. At June 30, 2017, all deposits were insured or collateralized by securities held by the District’s agent in the District’s name.

Note 3 - Due from Governments

Amounts receivable from other governments as of June 30, 2017 include:

<u>Fund</u>	<u>Federal</u>	<u>State</u>	<u>Other</u>	<u>Total</u>
General	\$ 213,434	\$ 14,975	\$ 23,061	\$ 251,470

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2017 is as follows:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
Capital assets being depreciated:				
Buildings	\$ 543,969	\$ -	\$ -	\$ 543,969
Equipment	11,664	-	-	11,664
Vehicles	139,478	25,330	(15,909)	148,899
Total capital assets being depreciated	<u>695,111</u>	<u>25,330</u>	<u>(15,909)</u>	<u>704,532</u>
Less accumulated depreciation for:				
Buildings	125,109	10,879	-	135,988
Equipment	11,077	587	-	11,664
Vehicles	73,997	10,933	(10,474)	74,456
Total accumulated depreciation	<u>210,183</u>	<u>22,399</u>	<u>(10,474)</u>	<u>222,108</u>
Total capital assets, net	<u>\$ 484,928</u>	<u>\$ 2,931</u>	<u>\$ (5,435)</u>	<u>\$ 482,424</u>

Depreciation expense for the year ended June 30, 2017 was charged to the following functions/programs:

Depreciation expense - Unallocated	\$ 22,399
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Note 5 - Long-Term Liabilities

Changes in long-term liabilities during the year ended June 30, 2017 are as follows:

	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017	Due within One Year
Compensated absences	\$ 85,075	\$ 21,150	\$ 27,462	\$ 78,763	\$ 78,763

Compensated Absences – This amount consists of compensated absences as described in Note 1.

Note 6 - Defined Benefit Pension Plans

Substantially all employees of the District are required by state law to belong to defined benefit, multi-employer, cost-sharing pension plans administered by the Teachers’ Fund for Retirement (TFFR) or the North Dakota Public Employees Retirement System (NDPERS), all of which are administered on a state-wide basis. Disclosures relating to these plans are as follows:

Teachers’ Fund for Retirement (TFFR)

A. Plan Description

The District participates in the following cost-sharing multiple employer defined benefit pension plan administered by TFFR. TFFR’s defined benefit pension plans are established and administered in accordance with NDCC Chapter 15-30.1. The cost to administer the TFFR plan is financed by investment income and contributions. All North Dakota public teachers and certain other teachers who meet various membership requirements, are covered by TFFR.

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

B. Benefits Provided

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

A Tier 1 grandfathered member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 85. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 85. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-30.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

A Tier 1 non-grandfathered member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

A Tier 2 member is entitled to receive unreduced benefits when five or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the five highest annual salaries earned divided by 60 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

Death benefits may be paid to a member's designated beneficiary. If a member's death occurs before retirement, the benefit options available are determined by the member's vesting status prior to death. If a member's death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement.

An active member is eligible to receive disability benefits when: (a) a total disability lasting 12 months or more does not allow the continuation of teacher, (b) the member has accumulated five years of credited service in North Dakota, and (c) the Board of Trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and uses the member's actual years of credited service. There is no actuarial reduction for reason of disability retirement.

C. Contributions

Member and employer contributions paid to TFFR are set by NDCC Section 15-30.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 11.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 12.75% of the teacher's salary. Member and employer contributions will be reduced to 7.75% when the fund reaches 100% funded ratio on an actuarial basis.

A vested member who terminates covered employment may elect a refund of contributions pail plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70 ½. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC. The District's contributions to the TFFR for the year ended June 30, 2017 were \$219,624. The District's contributions were equal to the required contributions for each year as set by state statute.

D. Net Pension Liability

At June 30, 2017, the District reported a liability of \$3,779,343 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At June 30, 2016, the District's proportion was .257965%, which was a decrease of .019177% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$300,717.

At June 30, 2017, the District reported its proportionate share of the TFFR's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 17,850	\$ -
Changes in actuarial assumptions	315,684	-
Difference between projected and actual investment earnings	314,166	17,894
Change in proportion and differences between employer contributions and proportionate share of contributions	-	289,932
Employer contributions to TFFR subsequent to the measurement date	219,624	-
Total	\$ 867,324	\$ 307,826

\$219,624 reported as deferred outflows of resources related to pensions resulting from District contributions to the TFFR subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

Years Ended June 30,	Pension Expense Amount
2018	\$ 64,996
2019	64,996
2020	141,764
2021	93,699
2022	9,378
Thereafter	(34,959)

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75%
Projected salary increases	4.25% to 14.50%, varying by service, includes inflation and productivity
Investment Rate of Return	7.75% net of investment expenses
Cost-of-living adjustments	None

For active and inactive members, mortality rates were based on the RP-2014 Employee Mortality Table, projected generationally using Scale MP-2014. For healthy retirees, mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table set back one year, multiplied by 50% for ages under 75 and grading up to 100% by age 80, projected generationally using Scale MP-2014. For disabled retirees, mortality rates were based on the RP-2014 Disabled Mortality Table set forward four years.

The actuarial assumptions used were based on the results of an actuarial experience study dated April 30, 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for TFFR.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target allocation are summarized in the following table:

Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
Global Equities	58%	7.30%
Global Fixed Income	23%	0.88%
Global Real Assets	18%	5.32%
Cash Equivalents	1%	0.00%
	100%	

F. Discount Rate

The discount rate used to measure the total pension liability in was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2016 Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

G. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current rate:

Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
Global Equities	58%	7.30%
Global Fixed Income	23%	0.88%
Global Real Assets	18%	5.32%
Cash Equivalents	1%	0.00%
	100%	

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TFFR financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.nd.gov/rio/TFFR/ or by contacting RIO at: ND Retirement and Investment Office, 1930 Burnt Boat Drive, P.O. Box 7100, Bismarck, ND 58507-7100 or by calling (701) 328-9885.

North Dakota Public Employees Retirement System (NDPERS)

A. Plan Description

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

B. Benefits Provided

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the main system are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 70% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by NDPERS in the North Dakota Administrative Code.

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

C. Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contributions rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 24 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

D. Net Pension Liability

At June 30, 2017, the District reported a liability of \$585,372 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2016, the District's proportion was 0.060063 percent, which was a decrease of .003771 from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$61,420.

At June 30, 2017, the District reported its proportionate share of the NDPERS' deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 8,794	\$ 5,420
Changes in actuarial assumptions	53,964	29,081
Difference between projected and actual investment earnings	81,668	-
Change in proportion and differences between employer contributions and proportionate share of contributions	-	69,388
Employer contributions to NDPERS subsequent to the measurement date	43,097	-
Total	\$ 187,523	\$ 103,889

\$43,097 reported as deferred outflows of resources related to pensions resulting from District contributions to the NDPERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

Years Ended June 30,	Pension Expense Amount
2018	\$ 3,536
2019	3,536
2020	21,351
2021	8,069
2022	4,045

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation		3.50%
Projected salary increases	4.00% to 20.00%	including inflation
Investment Rate of Return		8.00%
Cost-of-living adjustments		None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2016. They are the same as the assumptions used in the June 30, 2016, funding actuarial valuation for NDPERS.

As a result of the 2016 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2016. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
Domestic Equities	31%	6.60%
International Equities	21%	7.30%
Private Equity	5%	10.90%
Domestic Fixed Income	17%	1.49%
International Fixed Income	5%	-0.45%
Global Real Assets	20%	5.24%
Cash Equivalents	1%	0.00%
	<u>100%</u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2016 Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2016.

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
NDPERS discount rate	7.00%	8.00%	9.00%
District's proportionate share of the NDPERS net pension liability	\$ 830,340	\$ 585,372	\$ 378,975

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued NDPERS financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.nd.gov/ndpers or by contacting the Agency at: North Dakota Public Employees Retirement System, 400 E Broadway Ave., Suite 505, P.O. Box 1657, Bismarck, ND 58502-1657 or by calling (701) 328-3900.

Note 7 - Commitments and Contingencies

Federal Revenue

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Contingencies

The District does not have any knowledge of legal claims pending at year-end. The possibility exists that there could be possible claims that the District is currently not aware as of June 30, 2017. In either case the District believes the resolution of these matters will not have a material adverse effect on its financial statements.

Note 8 - Stewardship, Compliance, and Accountability

Budget control for the fund is established by its total appropriations. The General Fund had expenditures exceeding appropriations of \$147,213 for the year ended June 30, 2017. These over expenditures were funded by revenues exceeding budget.

Note 9 - Issued But Non-effective Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the District. The first statement issued but not yet implemented that will significantly affect the District is statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. This statement will be implemented at the District in the year ended June 30, 2018.

The second statement issued but not yet implemented that will significantly affect the District is statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. This statement will be implemented at the District in the year ended June 30, 2019.

The third statement issued but not yet implemented that will significantly affect the District is statement No. 80, *Blending Requirements for Certain Component Units—an Amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement enhance the comparability of financial statements among governments. This statement will be implemented at the District in the year ended June 30, 2018.

The fourth statement issued but not yet implemented that will significantly affect the District is statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. This statement will be implemented at the District in the year ended June 30, 2020.

The fifth statement issued but not yet implemented that will significantly affect the District is statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. This statement will be implemented at the District in the year ended June 30, 2018.

The final statement issued but not yet implemented that will significantly affect the District is statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. This statement will be implemented at the District in the year ended June 30, 2021.

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



Required Supplementary Information
June 30, 2017

Lake Region Special Education District

Lake Region Special Education District
 Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions
 June 30, 2017

**Schedule of Employer's Share of Net Pension Liability
 Last 10 Fiscal Years***

Pension Plan	Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Employer's Covered-Employee Payroll (b)**	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a/b)**	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
NDPERS	6/30/2016	0.0601%	\$ 585,372	\$ 605,297	96.7%	71.1%
NDPERS	6/30/2015	0.0638%	434,060	568,687	76.3%	77.7%
NDPERS	6/30/2014	0.0725%	459,913	610,377	75.3%	72.1%
TFFR	6/30/2016	0.2580%	\$ 3,779,343	\$ 1,676,065	225.5%	59.2%
TFFR	6/30/2015	0.2771%	3,624,616	1,704,712	212.6%	62.1%
TFFR	6/30/2014	0.2890%	3,028,113	1,676,302	180.6%	66.6%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

**Schedule of Employer's Contributions
 Last 10 Fiscal Years***

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (c)**	Contributions as a Percentage of Covered-Employee Payroll (b/c)**
NDPERS	6/30/2017	\$ 43,097	\$ 43,097	\$ -	\$ 605,297	7.1%
NDPERS	6/30/2016	43,196	41,072	2,124	568,687	7.2%
NDPERS	6/30/2015	43,459	43,459	-	610,377	7.1%
TFFR	6/30/2017	\$ 219,624	\$ 219,624	\$ -	\$ 1,676,065	13.1%
TFFR	6/30/2016	217,341	217,341	-	1,704,712	12.7%
TFFR	6/30/2015	180,201	180,201	-	1,676,302	10.7%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions

- NDPERS's CAFR may be obtained on the NDPERS's website at www.nd.gov/ndpers for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.
- TFFR's CAFR may be obtained on the TFFR's website at www.nd.gov/rio/TFFR for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.
- Covered payroll has been retrospectively restated for all years presented to conform to the definition of covered payroll as clarified in GASB Statement No. 82, *Pension Issues*.

** Covered Payroll as restated to conform to GASB Statement No. 82



Individual Fund Schedules
June 30, 2017

Lake Region Special Education District

Lake Region Special Education District

General Fund

Schedule of Revenues– Budget to Actual

Year Ended June 30, 2017

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Other local sources			
District assessments	\$ 369,000	\$ 332,997	\$ (36,003)
Other local revenues	78,000	85,998	7,998
	<u>447,000</u>	<u>418,995</u>	<u>(28,005)</u>
Federal sources			
Grants-In-Aid: Restricted			
Received through DPI	1,132,107	1,132,107	-
Medicaid	100,000	69,284	(30,716)
	<u>1,232,107</u>	<u>1,201,391</u>	<u>(30,716)</u>
State sources			
Grants-In-Aid: Unrestricted	<u>3,862,475</u>	<u>4,092,841</u>	<u>230,366</u>
Interdistrict sources			
School districts	<u>733,680</u>	<u>803,563</u>	<u>69,883</u>
Total revenues	<u>\$ 6,275,262</u>	<u>\$ 6,516,790</u>	<u>\$ 241,528</u>

Lake Region Special Education District

General Fund

Schedule of Expenditures – Budget to Actual

Year Ended June 30, 2017

	Original & Final Budget	Actual	Variance with Final Budget
Administration			
Salaries and wages	\$ 217,078	\$ 217,076	\$ 2
Employee benefits	111,776	103,345	8,431
Purchased services	16,700	24,723	(8,023)
Supplies, materials and travel	91,950	80,844	11,106
Other expenditures	3,000	2,876	124
	<u>440,504</u>	<u>428,864</u>	<u>11,640</u>
Special education instruction			
Salaries and wages	250,753	250,852	(99)
Employee benefits	78,916	82,135	(3,219)
Purchased services	725,000	740,704	(15,704)
Supplies, materials and travel	305,230	310,675	(5,445)
	<u>1,359,899</u>	<u>1,384,366</u>	<u>(24,467)</u>
Preschool instruction			
Salaries and wages	111,286	111,238	48
Employee benefits	54,009	52,509	1,500
Supplies, materials and travel	237,850	180,508	57,342
	<u>403,145</u>	<u>344,255</u>	<u>58,890</u>
Mentally handicapped instruction			
Salaries and wages	54,364	54,364	-
Employee benefits	26,929	27,015	(86)
Supplies, materials and travel	232,400	231,900	500
	<u>313,693</u>	<u>313,279</u>	<u>414</u>
Speech therapy			
Salaries and wages	487,212	477,207	10,005
Employee benefits	232,510	230,214	2,296
	<u>719,722</u>	<u>707,421</u>	<u>12,301</u>
Emotionally disturbed			
Supplies, materials and travel	<u>161,909</u>	<u>134,009</u>	<u>27,900</u>
Learning disabilities			
Salaries and wages	699,546	700,189	(643)
Employee benefits	348,136	348,445	(309)
Purchased services	-	-	-
Supplies, materials and travel	8,200	7,493	707
	<u>1,055,882</u>	<u>1,056,127</u>	<u>(245)</u>

Lake Region Special Education District
 General Fund
 Schedule of Expenditures – Budget to Actual (Continued)
 Year Ended June 30, 2017

Student contracts			
Supplies, materials and travel	<u>650,000</u>	<u>883,646</u>	<u>(233,646)</u>
Unrestricted-State			
Employee benefits	-	273	(273)
Discretionary grant	14,975	14,702	273
	<u>14,975</u>	<u>14,975</u>	<u>-</u>
Unrestricted -Federal			
Salaries and wages	657,404	657,404	-
Employee benefits	163,464	164,160	(696)
Purchased services	137,131	135,763	1,368
Supplies, materials and travel	174,107	174,779	(672)
	<u>1,132,106</u>	<u>1,132,106</u>	<u>-</u>
Total expenditures	<u>\$ 6,251,835</u>	<u>\$ 6,399,048</u>	<u>\$ (147,213)</u>



Other Supplementary Information
June 30, 2017

Lake Region Special Education District

Lake Region Special Education District
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2017

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Number</u>	<u>Expenditures</u>
Department of Education <i>Passed through the North Dakota Department of Public Instruction Special Education Cluster</i>			
Special Education Grants to States	84.027	N/A	\$ 1,095,627
Special Education Preschool Grants	84.173	N/A	<u>36,480</u>
Total expenditures of federal awards			<u><u>\$ 1,132,107</u></u>

Notes to Schedule of Expenditures of Federal Awards

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance, Audits of States, Local Governments, and Non-Profit Organizations. The District received federal awards indirectly through pass-through entities.

Note B – Significant Accounting Policies

Governmental fund types account for the District’s federal grant activity. Therefore, expenditures in the schedule of expenditures of federal awards are recognized on the modified accrual basis – when they become a demand on current available financial resources. The District’s summary of significant accounting policies is presented in Note 1 in the District’s basic financial statements.

The District has not elected to use the 10% de minimis cost rate.



Additional Reports
June 30, 2017

Lake Region Special Education District



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the School Board
Lake Region Special Education District
Devils Lake, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Lake Region Special Education District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Lake Region Special Education District’s basic financial statements, and have issued our report thereon dated January 31, 2018.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over financial reporting described in the accompanying schedule of audit findings and questioned costs as items 2017-A and 2017-B to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Lake Region Special Education District's Responses to Findings

Lake Region Special Education District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questions costs and the Corrective Action Plan, which is contained in a separate document. The Lake Region Special Education District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
January 31, 2018



Independent Auditor’s Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance

Members of the Governing Board
Lake Region Special Education District
Devils Lake, North Dakota

Report on Compliance for the Major Federal Program

We have audited Lake Region Special Education District’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Lake Region Special Education District’s major federal program for the year ended June 30, 2017. The Lake Region Special Education District’s major federal program is 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 the compliance for Lake Region Special Education District’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 compliance requirements referred to above could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Lake Region Special Education District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Lake Region Special Education District’s compliance.

Opinion on the Major Federal Program

In our opinion, Lake Region Special Education District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of Lake Region Special Education District is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Lake Region Special Education District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Lake Region Special Education District's internal control over compliance.

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

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

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

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
January 31, 2018

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Special Education Cluster	84.027, 84.173
Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

**2017-A Segregation of Duties
 Material Weakness**

Criteria: A good system of internal control requires an adequate segregation of duties so that no one individual has incompatible responsibilities. No one person should have more than one duty relating to the authorization (approval), custody of assets (check signers), record keeping, and reconciliation functions.

Condition: The District does not have enough staff to adequately separate duties in cash receipts, cash disbursements, accounts payable and purchasing, payroll and related liabilities, and general ledger maintenance and reconciliation.

Cause: There is a limited amount of office employees involved in the internal control process.

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

Recommendation: While we recognize that your staff may not be large enough to permit complete segregation of duties in all material respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the District. Segregation of authorization, custody of assets, record keeping and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

View of Responsible Officials: There is no disagreement with the audit finding.

2017-B Preparation of Financial Statements
Material Weakness

Criteria: A good system of internal accounting control contemplates an adequate system for internally preparing the District's financial statements.

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

Cause: The District does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Effect: The disclosures in the financial statements could be incomplete.

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

View of Responsible Officials: There is no disagreement with the audit finding.

Section III – Federal Award Findings and Questioned Costs

None Reported