

Mandaree Public School District No. 36
Mandaree, North Dakota

Financial and Compliance Report
Year Ended June 30, 2019

Contents

Introductory Section (unaudited)	
Table of contents	i
School district officials	ii
<hr/>	
Financial Section	
<hr/>	
Independent auditor's report	1-2
Management's discussion and analysis	3-7
Basic financial statements:	
Government-wide financial statements:	
Statement of net position—modified cash basis	8
Statement of activities—modified cash basis	9
Fund financial statements:	
Balance sheet—modified cash basis—governmental fund	10
Reconciliation of the governmental fund balance sheet—modified cash basis to the statement of net position—modified cash basis	11
Statement of revenues, expenditures and changes in fund balance— modified cash basis—governmental fund	12
Reconciliation of the statement of revenues, expenditures and changes in fund balance—modified cash basis of governmental funds to the statement of activities—modified cash basis	13
Statement of fiduciary assets and liabilities—Agency Fund—modified cash basis	14
Notes to basic financial statements	15-23
Other information:	
Budgetary comparison schedule—General Fund—modified cash basis	24
Note to other information	25
Supplementary information:	
Statement of changes in fiduciary assets and liabilities—Agency Fund— modified cash basis	26
<hr/>	
Compliance Section	
<hr/>	
Schedule of expenditures of federal awards—modified cash basis	27
Notes to schedule of expenditures of federal awards	28
Report on internal control over financial reporting and on compliance and other matters based on an audit of modified cash basis financial statements performed in accordance with government auditing standards	29-30
Report on compliance for the major federal program and report on internal control over compliance required by the Uniform Guidance	31-32
Schedule of findings and questioned costs	33-35
Summary schedule of prior audit findings	36
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Mandaree Public School District No. 36

**School District Officials
Year Ended June 30, 2019**

Official	Position
Kelly Bradfield	Board President
Rose Ann Johnson	Board Vice President
Gladys Sherry Lone Fight	Board Member
Brad Sage	Board Member
Ted Lone Fight III	Board Member
Carolyn Bluestone	Superintendent
Abiodun Obidinma	Business Manager

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Independent Auditor's Report

RSM US LLP

Members of the School Board
Mandaree Public School District No. 36

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Mandaree Public School District No. 36 (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the major fund and the aggregate remaining fund information of Mandaree Public School District No. 36, as of June 30, 2019, and the respective changes in modified cash basis financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The statement of changes in fiduciary assets and liabilities and schedule of expenditures of federal awards, as required by Single Audit Act and Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

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 on the basis of accounting described in Note 1.

The introductory section, management discussion and analysis, and budgetary comparison information 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2019 on our consideration of the 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 the 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 District's internal control over financial reporting and compliance.

RSM US LLP

Davenport, Iowa
December 9, 2019

Mandaree Public School District No. 36

Management's Discussion and Analysis Year Ended June 30, 2019

It is an honor to present to you the financial picture of the Mandaree Public School District No. 36 (the District). We offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the Mandaree Public School District No. 36 for the fiscal year ended June 30, 2019. Professional standards require the inclusion of certain comparative information in the Management's Discussion and Analysis (MD&A).

Financial Highlights

Key financial highlights for 2019 are as follows:

Total modified cash basis revenues for the fiscal year ended June 30, 2019 of \$6,989,771 were comprised of general revenues in the amount of \$3,614,055 and program revenues totaling \$3,375,716.

Total modified cash basis expenditures decreased \$890,334 or 12.5% from \$7,097,285 in 2018 to \$6,206,951 in 2019.

As of the close of the current fiscal year, the District's governmental funds (General Fund) reported combined ending fund balance of \$2,118,706 an increase of \$1,120,219 in comparison with the prior year. Of the total combined fund balance, \$907,132 represents unassigned fund balance.

Overview of the Financial Statements

This Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statement, 2) fund financial statement and 3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statement: The government-wide financial statement consists of a Statement of Net Position and a Statement of Activities. These statements provide information about the activities of the District as a whole and presents an overall view of the District's finances.

The government-wide financial statement reflects functions of the District that are principally supported by intergovernmental revenues (governmental activities). The District does not currently have any activities that are considered business-type activities. The governmental activities of the District include instruction and support services.

The government-wide financial statement includes only Mandaree Public School District No. 36. There are no other organizations or agencies whose financial statements should be combined and presented with the financial statements of the District.

The government-wide financial statements can be found on pages 8 and 9 of this report.

Mandaree Public School District No. 36

Management's Discussion and Analysis Year Ended June 30, 2019

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Mandaree Public School District No. 36, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District's funds are governmental funds and fiduciary funds.

Governmental funds: Governmental funds account for most of the District's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental fund financial statements provide a detailed, short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The Mandaree Public School District No. 36 maintains one individual governmental fund.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget on pages 24 and 25.

The basic governmental fund financial statements can be found on pages 10 and 12 of this report.

Notes to basic financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. The District's total modified cash basis net position has increased from a year ago. Table 1 reflects an increase to \$10,172,838 from \$9,390,018.

Table 1

	Governmental Activities	
	2019	2018
Assets		
Current and other assets	\$ 2,122,604	\$ 1,037,402
Capital assets	8,597,132	8,934,531
Total assets	10,719,736	9,971,933
Liabilities		
Other liabilities	3,898	38,915
Long-term liabilities	543,000	543,000
Total liabilities	546,898	581,915
Net Position		
Net investment in capital assets	8,054,132	8,391,531
Restricted	1,211,574	702,957
Unrestricted	907,132	295,530
Total net position	\$ 10,172,838	\$ 9,390,018

Mandaree Public School District No. 36

**Management's Discussion and Analysis
Year Ended June 30, 2019**

A restricted portion of the District's net position (11.9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$907,132 may be used to meet the government's ongoing obligations to students and creditors.

At the end of the current fiscal year, there is a positive balance in the unrestricted net position.

The increase in net position of \$782,820 is mainly attributable to decrease in repairs and maintenance expenditures.

Table 2 highlights the changes in net position and the District's revenues and expenses for the fiscal years ended June 30, 2019 and 2018.

Revenues are divided into two major categories: program revenues and general revenues. Program revenues are defined as charges for services, operating grants and contributions, and capital grants and contributions. General revenues include taxes, unrestricted grants, other revenue and investment income.

Expenses are shown in programs including instruction and support services.

Table 2 - Changes in Modified Cash Basis Net Position

	Governmental Activities	
	2019	2018
Revenues:		
Program revenues:		
Charges for services	\$ 104,076	\$ 98,548
Capital grants and contributions	-	183,544
Operating grants and contributions	3,271,640	3,641,428
General revenues:		
Property taxes	80,845	61,792
Grants and entitlements	3,390,276	3,191,757
Investment earnings	14,944	3,132
Other	127,990	62,334
Total revenues	6,989,771	7,242,535
Expenses:		
Instruction	3,641,462	4,363,124
Support services	2,565,489	2,734,161
Total expenses	6,206,951	7,097,285
Change in net position	782,820	145,250
Net position, beginning of year	9,390,018	9,244,768
Net position, end of year	\$ 10,172,838	\$ 9,390,018

Mandaree Public School District No. 36

Management's Discussion and Analysis Year Ended June 30, 2019

Table 3 below discloses cost of services for governmental activities. The total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program receipts. Succinctly put, net costs are costs that must be covered by unrestricted federal and state aid or local taxes. The difference in these two columns would represent restricted grants, fees and donations.

Table 3 - Governmental Activities

Programs	Total Cost of Services 2019	Net Cost of Services 2019	Total Cost of Services 2018	Net Cost of Services 2018
Instruction	\$ 3,641,462	\$ 1,735,476	\$ 4,363,124	\$ 1,642,717
Support services	2,565,489	1,095,759	2,734,161	1,531,048
Total expenses	\$ 6,206,951	\$ 2,831,235	\$ 7,097,285	\$ 3,173,765

The District's total revenues for governmental activities decreased \$252,764 or 3.5%, mainly due to decrease in state revenues. Total expenses decreased \$890,334 or 12.5% due to a decrease in repairs and maintenance.

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds: The focus of the District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental fund reported ending fund balance of \$2,118,706, an increase of \$1,120,219 in comparison with the prior year. The unassigned fund balance, which is available for spending at the government's discretion, was \$907,132 in the current year. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has already been restricted for the QZAB note retirement or for grant programs.

The General Fund is the chief operating fund of the District. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned and total fund balance represents 15.5% and 36.1% of total General Fund expenditures, respectively.

General Fund Budgetary Highlights

Revenues were over budget by \$689,771. This was mainly due to higher than expected local and federal revenues.

Expenditures were under budget by \$430,448. The under budget expenditures were mainly due to a decrease in federal expenditures.

Mandaree Public School District No. 36

**Management's Discussion and Analysis
Year Ended June 30, 2019**

Capital Assets and Debt Administration

The following table shows ending balances of capital assets by category. At the end of the 2019 fiscal year, the District had invested \$8,597,132 in capital assets. This amount represents a decrease of \$337,399. Additional information about capital assets can be found in Note 4. Total accumulated depreciation of these assets equaled \$3,241,669.

Table 4 - Capital Assets as of June 30 (Net of Depreciation)

	Governmental Activities	
	2019	2018
Construction in progress	\$ -	\$ 892,858
Buildings	7,738,186	7,380,654
Equipment	457,964	236,018
Vehicles	400,982	425,001
	<u>\$ 8,597,132</u>	<u>\$ 8,934,531</u>

Debt

As of June 30, 2019 the District had long-term debt outstanding totaling \$543,000.

Table 5 - Outstanding Debt, as of June 30

	Governmental Activities 2019	Governmental Activities 2018	Maturity
QZAB note payable	<u>\$ 543,000</u>	<u>\$ 543,000</u>	2021

Additional information about the District's long-term debt can be found in Note 5 to the financial statements.

Economic Factors

All of the above information was considered in preparing the District's budget for the 2020 fiscal year.

Requests for Information

These financial statements and discussions are designed to provide our students, citizens, taxpayers and creditors with a complete disclosure of the District's finances and to demonstrate a high degree of accountability for the public dollars entrusted to us. If you have questions about this report or need additional information, please write Mandaree Public School District No. 36, P.O. Box 488, Mandaree, North Dakota 58757.

Mandaree Public School District No. 36

Statement of Net Position—Modified Cash Basis
June 30, 2019

	Governmental Activities
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,687,127
Employee receivables	1,077
Total current assets	1,688,204
Capital assets:	
Buildings	10,028,599
Equipment	711,130
Vehicles	1,099,072
Less accumulated depreciation	(3,241,669)
Total capital assets	8,597,132
Restricted cash for QZAB note payable retirement	434,400
Total noncurrent assets	9,031,532
Total assets	10,719,736
Liabilities	
Current liabilities, payroll withholding liability	3,898
Long-term liabilities, long-term debt	543,000
Total liabilities	546,898
Net position	
Net investment in capital assets	8,054,132
Restricted for QZAB note payable retirement	434,400
Restricted for grants	777,174
Unrestricted	907,132
Total net position	\$ 10,172,838

See notes to basic financial statements.

Mandaree Public School District No. 36

Statement of Activities—Modified Cash Basis
Year Ended June 30, 2019

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
					Governmental Activities
Governmental Activities					
Instruction:					
Regular programs	\$ 3,098,686	\$ -	\$ 1,687,856	\$ -	\$ (1,410,830)
Special education	542,776	-	218,130	-	(324,646)
Total instruction	3,641,462	-	1,905,986	-	(1,735,476)
Support services:					
General administration services	589,442	104,076	429,700	-	(55,666)
Instructional staff services	86,517	-	-	-	(86,517)
Operations and maintenance	1,153,554	-	669,726	-	(483,828)
Pupil transportation services	298,898	-	107,000	-	(191,898)
Extracurricular activities	134,219	-	-	-	(134,219)
Food services	302,859	-	159,228	-	(143,631)
Total support services	2,565,489	104,076	1,365,654	-	(1,095,759)
Total governmental activities	\$ 6,206,951	\$ 104,076	\$ 3,271,640	\$ -	(2,831,235)

General Revenues

State aid not restricted for specific purpose:	
Property taxes, levied for general purpose	80,845
Per pupil aid	1,489,186
Other state aid	621,157
Federal aid not restricted for a specific purpose, ISEP	
	1,279,933
Interest income	14,944
Miscellaneous	127,990
Total general revenues	3,614,055
Change in net position	782,820
Net position, beginning of year	9,390,018
Net position, end of year	\$ 10,172,838

See notes to basic financial statements:

Mandaree Public School District No. 36

**Balance Sheet—Modified Cash Basis
Governmental Fund
June 30, 2019**

	General Fund
Assets	
Cash and cash equivalents	\$ 1,687,127
Restricted cash for QZAB note payable retirement	434,400
Employee receivables	<u>1,077</u>
Total assets	<u><u>\$ 2,122,604</u></u>
Liabilities, payroll withholding liability	<u>\$ 3,898</u>
Fund balance	
Restricted, QZAB bond retirement	434,400
Restricted, grants	777,174
Unassigned	<u>907,132</u>
Total fund balance	<u><u>2,118,706</u></u>
Total liabilities and fund balance	<u><u>\$ 2,122,604</u></u>

See notes to basic financial statements.

Mandaree Public School District No. 36

**Reconciliation of the Governmental Fund Balance Sheet—Modified Cash Basis to the
Statement of Net Position—Modified Cash Basis
June 30, 2019**

Total governmental fund balance	\$ 2,118,706
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statement, but are reported in the governmental activities of the statement of net position. Those assets consist of:	
Buildings	10,028,599
Equipment	711,130
Vehicles	1,099,072
Accumulated depreciation	(3,241,669)
Long-term liabilities applicable to the District's governmental activities are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position.	<u>(543,000)</u>
Net position of governmental activities	<u><u>\$ 10,172,838</u></u>

See notes to basic financial statements.

Mandaree Public School District No. 36

Statement of Revenues, Expenditures and Changes In Fund Balance—Modified Cash Basis
 Governmental Fund
 Year Ended June 30, 2019

	General
Revenues:	
Local sources	\$ 80,845
State sources	2,195,367
Federal sources	4,466,549
Rental income	104,076
Other sources	142,934
Total revenues	<u>6,989,771</u>
Expenditures:	
Instruction:	
Regular programs	3,098,686
Special education	542,776
Total instruction	<u>3,641,462</u>
Support services:	
Current:	
General administration services	589,442
Instructional staff services	86,517
Operations and maintenance	771,798
Pupil transportation services	214,846
Extracurricular activities	134,219
Food service	302,859
Capital outlay	128,409
Total support services	<u>2,228,090</u>
Total expenditures	<u>5,869,552</u>
Net change in fund balance	1,120,219
Fund balance, beginning of year	<u>998,487</u>
Fund balance, end of year	<u>\$ 2,118,706</u>

See notes to basic financial statements.

Mandaree Public School District No. 36

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balance—Modified Cash Basis of Governmental Funds to the Statement of Activities—
Modified Cash Basis
Year Ended June 30, 2019**

Net change in fund balance—total governmental funds	\$	1,120,219
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The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:

Capital outlay	\$	128,409	
Depreciation expense		<u>(465,808)</u>	<u>(337,399)</u>

Change in net position of governmental activities		\$	<u>782,820</u>
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See notes to basic financial statements.

Mandaree Public School District No. 36

Statement of Fiduciary Assets and Liabilities
Agency Fund—Modified Cash Basis
June 30, 2019

	Student Activity Fund
Assets, cash and cash equivalents	<u>\$ 118,347</u>
Liabilities, due to private individuals	<u>\$ 118,347</u>

See notes to basic financial statements.

Mandaree Public School District No. 36

Notes to Basic Financial Statements

Note 1. Nature of Operations, Financial Reporting Entity, Basis of Presentation, Measurement Focus, Basis of Accounting and Financial Statement Presentation and Significant Accounting Policies

Nature of operations: Mandaree Public School District No. 36 (the District) operates public schools for children in grades kindergarten through twelve. The District is located within the City of Mandaree, North Dakota and is comprised of one elementary school and one high school with a student body of approximately 254 students. The District is governed by the Mandaree Public School District No. 36 Board of Education which is elected in the general elections.

Financial reporting entity: Accounting principles generally accepted in the United States of America require the financial reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District is governed by a Board of Education, which is elected by the public and has the exclusive responsibility and accountability for the decisions it makes. The District has the statutory authority to adopt its own budget, to levy taxes and to issue bonded debt without the approval of another government. It has the right to sue and be sued, and has the right to buy, sell, lease or mortgage property in its own name. In addition, Governmental Accounting Standards Board (GASB) Statement No. 39, sets forth additional criteria to determine whether certain organizations for which the District is not financially accountable should be reported as component units based on the nature and significance of their relationship with the District. These criteria include 1) the economic resources being received or held by the separate organization being entirely or almost entirely for the direct benefit of the District, its component units, or its constituents, 2) the District being entitled to, or having the ability to otherwise access, a majority of the economic resources received or held by the Organization and 3) the economic resources received or held by an individual organization that the District is entitled to, or has the ability to otherwise access, are significant to the District. Based on these criteria, the District is considered a primary government and there are no other organizations or agencies whose financial statements should be combined and presented with these basic financial statements.

Basis of presentation: The District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide financial statements: The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The District does not have any activities that are considered business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Notes to Basic Financial Statements

Note 1. Nature of Operations, Financial Reporting Entity, Basis of Presentation, Measurement Focus, Basis of Accounting and Financial Statement Presentation and Significant Accounting Policies (Continued)

Fund financial statements: During the year, the District segregates transactions related to certain District functions or activities in separate subfunds in order to aid financial management. Fund financial statements are designed to present financial information of the District at this more detailed level. The District has a general fund and an agency fund. The focus of governmental fund financial statements is on major funds. Major funds are presented in separate columns. Nonmajor funds, if any, are aggregated and presented in a single column. Fiduciary funds are reported by type.

Measurement focus, basis of accounting and financial statement presentation: In the government-wide statement of net position, statement of activities and the fiduciary fund financial statements are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery) and net financial position. All assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

The financial statements are presented in accordance with a modified cash basis of accounting, which is a basis of accounting other than principles generally accepted in the United States of America (GAAP). This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position or balance sheets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or events occurred. Such reported balances include grants received in advance, capital assets and related depreciation and short-term and long-term liabilities arising from cash transactions or events. Grants received in advance are recognized as revenue once all eligibility requirements imposed by the provider have been met.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows or resources, liabilities and deferred inflows of resources that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

Mandaree Public School District No. 36

Notes to Basic Financial Statements

Note 1. Nature of Operations, Financial Reporting Entity, Basis of Presentation, Measurement Focus, Basis of Accounting and Financial Statement Presentation and Significant Accounting Policies (Continued)

Basis of presentation: The District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. However, the District only maintains governmental and fiduciary funds.

Governmental funds: Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following is the District's major governmental fund:

General Fund: The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

In addition, the District reports the following fiduciary fund:

Fiduciary Fund: Accounts for assets held by the District in a trustee or agency capacity for the benefit of others and cannot be used to support District activities.

Student Activity: Accounts for activities of student groups and other types of activities requiring clearing accounts.

Significant accounting policies (modified cash basis): The significant accounting policies followed by the District include the following:

Cash and cash equivalents: The District considers investments with an original maturity of three months or less when purchase to be considered cash equivalents.

Capital assets: Capital assets are reported in the government-wide financial statements. Capital assets are defined as having an individual cost of \$5,000 or more and have a useful life in excess of one year. Capital assets are stated at cost. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	15-50
Equipment	5-20
Vehicles	8

The District's buildings are on land owned by Three Affiliated Tribes. As the District does not have title to the land, they do not show any land on their financial statements.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized and instead are a period expense.

Notes to Basic Financial Statements

Note 1. Nature of Operations, Financial Reporting Entity, Basis of Presentation, Measurement Focus, Basis of Accounting and Financial Statement Presentation and Significant Accounting Policies (Continued)

Employee receivables: These are advances to employees for travel expenses that have not occurred as of year-end.

Long-term debt: All long-term debt arising from cash basis transactions to be repaid from governmental resources are reported as liabilities in the government-wide statements.

Long-term debt arising from cash basis transactions of governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures.

Estimates: Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenditures. Actual results could vary from the estimates that were used.

Net position: Net position represents the difference between assets and liabilities. Net investment in capital assets consists of the remaining undepreciated cost of the capital asset less the outstanding debt associated with the purchase or construction of the related assets. Net investment in capital assets excludes unspent debt proceeds, if any. Net position are reported as restricted when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governmental organizations.

The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Fund balance: In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable: Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted: Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed: Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the School Board through ordinance approved prior to year-end. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same action it employed to commit those amounts.

Assigned: Amounts constrained by the District's intent to use them for a specific purpose. It is the District's policy that the authority to assign fund balance has been delegated by the School Board to the Business Manager through the budget process.

Unassigned: All amounts not included in other spendable classifications. The General Fund is the only fund that would report a positive amount in unassigned fund balance.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District procedure is to pay the expenditure from restricted fund balance and then from less-restrictive classifications—committed, assigned and then unassigned fund balances.

Mandaree Public School District No. 36

Notes to Basic Financial Statements

Note 1. Nature of Operations, Financial Reporting Entity, Basis of Presentation, Measurement Focus, Basis of Accounting and Financial Statement Presentation and Significant Accounting Policies (Continued)

Compensated absences: Noncertified full-time employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment at severance time. These accumulations are not recognized as disbursements by the District until used and paid. This liability will be liquidated by the General Fund.

In addition, teachers are provided 10 days of sick leave that may accumulate without limit and up to 45 days of accumulated sick leave may be sold back to the District at a determined rate within their contract. This liability will be liquidated by the General Fund.

As described in Note 1 under modified cash basis of accounting, these liabilities are not reported in the financial statements.

Note 2. Cash and Cash Equivalents

The following is a summary of the cash balances as of June 30, 2019:

Bank	Balance
Cash and cash equivalents—General Fund	\$ 1,687,127
Restricted cash for QZAB note retirement—General Fund	434,400
Cash and cash equivalents—Student Activity Fund	118,347
	<u>\$ 2,239,874</u>

Restricted cash for QZAB note retirement is the amount of cash deposited into the bond sinking fund to pay off the District's QZAB note payable at retirement. The note payable matures in 2021.

The District does not have an investment policy, nor do they have any investments as of June 30, 2019.

Custodial credit risk: Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy. As of June 30, 2019, \$2,248,922 of the District's bank balance of \$2,433,322 was covered by federal depository insurance or collateral and was not exposed to custodial credit risk.

Note 3. Property Tax

Revenues from local sources contains property tax revenues.

The District's property tax is levied each January 1 on the assessed value listed as of the prior January 1 for all real property located in the District. Assessed values are established by the County Board of Equalization. A revaluation of all property is required to be completed every year. The property taxes levied on January 1 are due in two equal installments on the March 1 and October 15 following the levy date. Property taxes are limited by state laws.

Mandaree Public School District No. 36

Notes to Basic Financial Statements

Note 4. Capital Assets

Capital assets activity for fiscal year ended June 30, 2019 is as follows:

Governmental Activities	Balance June 30, 2018	Additions	Disposals/ Transfers	Balance June 30, 2019
Capital assets, not being depreciated, construction in progress	\$ 892,858	\$ -	\$ (892,858)	\$ -
Capital assets, being depreciated:				
Buildings	9,345,559	45,520	637,520	10,028,599
Equipment	432,936	82,889	195,305	711,130
Vehicles	1,039,039	-	60,033	1,099,072
Total capital assets, being depreciated	10,817,534	128,409	892,858	11,838,801
Accumulated depreciation:				
Buildings	1,964,905	325,508	-	2,290,413
Equipment	196,918	56,248	-	253,166
Vehicles	614,038	84,052	-	698,090
Total accumulated depreciation	2,775,861	465,808	-	3,241,669
Total capital assets, being depreciated, net	8,041,673	(337,399)	892,858	8,597,132
Governmental activities capital assets, net	\$ 8,934,531	\$ (337,399)	\$ -	\$ 8,597,132

Depreciation expense was charged to the following functions and programs of the District for the year ended June 30, 2019:

Governmental activities:

Support services:

Operations and maintenance	\$ 381,756
Pupil transportation services	84,052
Total depreciation expense—governmental activities	<u>\$ 465,808</u>

Note 5. Long-Term Debt

The following is a summary of changes in governmental activities' long-term debt for the year ended June 30, 2019:

	Balance June 30, 2018	Additions	Deductions	Balance June 30, 2019	Balance Due Within One Year
QZAB note payable, private placement	\$ 543,000	\$ -	\$ -	\$ 543,000	\$ -

Noninterest bearing QZAB note payable to bank, due in one lump sum payment of \$543,000 in August 2021, secured by a building. The note requires annual installments of \$36,200 into a bond sinking fund through 2021. The final balloon payment for the total note in the amount of \$543,000 will be paid from the bond sinking fund in August 2021. The note payable contains a provision that in the event that the district fails to be in compliance with the covenants of the agreement, the repayment of the outstanding amounts become immediately due.

Mandaree Public School District No. 36

Notes to Basic Financial Statements

Note 6. Pension Plan

North Dakota Teachers' Fund for Retirement: The District contributes to the North Dakota Teachers' Fund for Retirement (TFFR), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. TFFR provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with Chapter 15-39.1 of the North Dakota Century Code. TFFR issues a publicly available financial report that includes financial statements and required supplementary information for TFFR. Detailed information about the report may be obtained on the NDPERS website <http://ndpers.nd.gov/about/financial/annual-report-archive/>.

Plan members are required to contribute 11.75% of their annual covered salary and the District is required to contribute 12.75% of the teacher's salary. The contribution requirements of plan members and the District are established and may be amended by the State legislature. The District's contributions, including the employee's share, to TFFR for the fiscal years ended June 30, 2019, 2018 and 2017 were \$405,195, \$353,852 and \$361,032, respectively.

North Dakota Public Employees' Retirement System: The District participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the State of North Dakota. Following is a brief description of the Plan:

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees other than teachers of the District. The Plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employee'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 employee's accumulated pension benefits are paid, the balance will be paid to the surviving spouse's designated beneficiary.

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

Employees are entitled to unreduced monthly pension benefits equal to 2.0% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The Plan permits early retirement at ages 55-64, with three or more years of service.

Mandaree Public School District No. 36

Notes to Basic Financial Statements

Note 6. Pension Plan (Continued)

Benefit and contribution provisions are administered in accordance with Chapter 54-52 of the North Dakota Century Code. This state statute requires that 7% of the participant's salary be contributed to the Plan by either the employee or by the employer under a "salary reduction" agreement. The District has implemented a salary reduction agreement and is currently contributing the employees' share. The District is required to contribute 7.12% of each participant's salary as the employee's share. In addition to the 7.12% of the employee contribution paid by the District, the employer is required to contribute 1.14% of each participating employee's gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method and are included in state statute. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. The District's required and actual contributions, including the employee's share, to NDPERS for the fiscal years ended June 30, 2019, 2018 and 2017 were \$148,394, \$126,664 and \$105,805, respectively, of which \$68,070, \$58,102 and \$49,366 were the employees' share, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained on the NDPERS website <http://ndpers.nd.gov/about/financial/annual-report-archive/>.

Note 7. Risk Management

The Mandaree Public School District No. 36 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the District carries insurance through the following funds/pools established by the State.

The District is commercially insured for employee health insurance through Blue Cross/Blue Shield.

In 1986 state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for over 2,000 state agencies and political subdivisions. The Mandaree Public School District No. 36 pays an annual premium to NDIRF for its general liability, auto, personal injury and property damage, errors and omissions and inland marine insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence.

The District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The District pays an annual premium to the Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The State Bonding Fund currently provides the District with the blanket fidelity bond coverage in the amount of \$1,900,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage. The District participates in the North Dakota Workforce Safety and Insurance Fund (WSI), an Enterprise Fund of the State of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

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

Note 8. Economic Dependency

The District receives 64% of its total revenue from grants from the federal government.

Mandaree Public School District No. 36

Notes to Basic Financial Statements

Note 9. Contingencies

The District participates in various federal grant programs, the principal of which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the District's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District anticipates such amounts, if any, will be immaterial.

Note 10. Fund Balances

The details for the District's federal grants restricted fund balance is as follows:

	General
Restricted federal grants:	
Indian school equalization program	\$ 9,532
Administrative costs	479,962
Indian education facilities	168,189
Educatoion program enhancements	20,341
FOCUS on student achievement	16,305
Title IIA	21,720
Title I	61,125
Total restricted	<u>\$ 777,174</u>

Note 11. Pending Governmental Accounting Standards Board (GASB) Statements

As of June 30, 2019, the GASB has issued the following statement not yet implemented by the District. The statement which might impact the District is as follows:

- GASB Statement No. 84, *Fiduciary Activities*, issued February 2017, will be effective for the District beginning with its fiscal year ending June 30, 2020. The objective of Statement No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The District's management has not yet determined the effect this statement will have on the District's financial statements.

As of June 30, 2019 the District adopted GASB Statement No. 88, *Certain Disclosures Related to Debt, including Borrowings and Direct Placements*. The Statement clarifies which liabilities governments should include in their note disclosures related to debt. This Statement defines debt that must be disclosed in the notes to financial statements as a liability that arises from a contractual obligation to pay cash in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Governments must also disclose amounts of unused lines of credit, assets pledged as collateral for debt and the terms specified in debt agreements related to significant events of default with finance-related consequences, termination events with finance-related consequences, and subjective acceleration clauses. Within the notes, governments should separate information regarding direct borrowings and direct placements of debt from other debt. See Note 5 to the financial statements for the required disclosures.

Mandaree Public School District No. 36

**Other Information
Budgetary Comparison Schedule
General Fund—Modified Cash Basis
Year Ended June 30, 2019**

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Revenues				
Local sources	\$ -	\$ -	\$ 80,845	\$ 80,845
State sources	2,081,273	2,081,273	2,195,367	114,094
Federal sources	4,148,727	3,929,274	4,466,549	537,275
Rental	70,000	70,000	104,076	34,076
Other	-	-	142,934	142,934
Total revenues	6,300,000	6,080,547	6,989,771	909,224
Expenditures:				
Instruction:				
Regular programs	3,790,586	3,790,586	3,098,686	691,900
Special education	620,000	620,000	542,776	77,224
Total instruction	4,410,586	4,410,586	3,641,462	769,124
Support services:				
Current:				
General administration services	418,247	418,247	589,442	(171,195)
Instructional staff services	-	-	86,517	(86,517)
Operation and maintenance	911,324	911,324	771,798	139,526
Student transportation	243,872	243,872	214,846	29,026
Extracurricular activities	150,122	150,122	134,219	15,903
Food service	165,849	165,849	302,859	(137,010)
Capital Outlay	-	-	128,409	(128,409)
Total support services	1,889,414	1,889,414	2,228,090	(338,676)
Total expenditures	6,300,000	6,300,000	5,869,552	430,448
Net change in fund balance	\$ -	\$ -	1,120,219	\$ 478,776
Fund balance, beginning of year			998,487	
Fund balance, end of year			<u>\$ 2,118,706</u>	

See note to other information.

Mandaree Public School District No. 36

Note to Other Information

Note 1. Budgets and Budgetary Information

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The superintendent and business manager prepare the District budget under the modified cash basis of accounting. The budget includes proposed expenditures and the means of financing them. The budget includes the general fund.
2. The School Board reviews the budget, may make revisions and approves it on or before August 15. The budget must be filed with the County Auditor by August 25.
3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared except no amendment changing the taxes levied can be made after October 10. There was no amendment during 2019.
4. The balance of each appropriation becomes a part of the unappropriated balance at year-end.

Mandaree Public School District No. 36

Statement of Changes in Fiduciary Assets and Liabilities
Agency Fund—Modified Cash Basis
Year Ended June 30, 2019

	Beginning Balance	Additions	Deletions	Ending Balance
Assets				
Cash and cash equivalents	\$ 123,142	\$ 81,507	\$ 86,302	\$ 118,347
Liabilities, due to private individuals	\$ 123,142	\$ 81,507	\$ 86,302	\$ 118,347

Mandaree Public School District No. 36

**Schedule of Expenditures of Federal Awards—Modified Cash Basis
Year Ended June 30, 2019**

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-through Identifying Number	Passed Through To Subrecipients	Expenditures
U.S. Department of Interior				
Bureau of Indian Affairs:				
Indian School Equalization Program	15.042	N/A	\$ -	\$ 1,280,400
Indian School Equalization Program	15.042	N/A	-	16,718
Subtotal 15.042			-	<u>1,297,118</u>
Indian School, Student Transportation	15.044	N/A	-	97,390
Administrative Cost Grants for Indian Schools	15.046	N/A	-	404,489
Indian Education Facilities, Operations and Maintenance	15.047	N/A	-	210,124
Indian Education Facilities, Operations and Maintenance	15.047	N/A	-	90,190
Subtotal 15.047			-	<u>300,314</u>
Education Program Enhancements	15.151	N/A	-	9,822
FOCUS on Student Achievement	15.149	N/A	-	22,224
Total U.S. Department of Interior			-	<u>2,131,357</u>
U.S. Department of Agriculture				
Passed Through North Dakota Department of Public Instruction:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	N/A	-	49,254
National School Lunch Program	10.555	N/A	-	78,375
Summer Food	10.559	N/A	-	10,713
Commodities	10.555	N/A	-	11,179
Subtotal Child Nutrition Cluster			-	<u>149,521</u>
Fresh Fruits and Vegetables	10.582	N/A	-	7,481
Total U.S. Department of Agriculture			-	<u>157,002</u>
U.S. Department of Education				
Direct Programs:				
Indian Education Formula Grant	84.060A	N/A	-	49,865
Bureau of Indian Affairs:				
Special Education Cluster (IDEA)	84.027A	N/A	-	198,130
Title I, Part A Cluster *	84.010	N/A	-	256,600
Title I, Part A Cluster *	84.010	N/A	-	30,561
Subtotal 84.010			-	<u>287,161</u>
Impact Aid	84.041	N/A	-	7,947
Title IIA - Teacher Quality Improvement Funds	84.336	N/A	-	41,626
Title VI Part A	84.338	N/A	-	10,000
Passed Through North Dakota Department of Public Instruction:				
Title I, Part A Cluster*	84.010	N/A	-	247,101
Title IIA - Teacher Principal Quality Training	84.367A	N/A	-	62,110
Title VI Part B Rural Ed	84.358	N/A	-	36,303
Total U.S. Department of Education			-	<u>940,243</u>
Total expenditures of federal awards			\$ -	\$ 3,228,602
* Total Title 1, Part A Cluster			\$ -	\$ 534,262

See notes to schedule of expenditures of federal awards.

Mandaree Public School District No. 36

**Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019**

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Mandaree Public School District No. 36 under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of Mandaree Public School District No. 36, it is not intended to and does not present the financial position, or changes in net position of Mandaree Public School District No. 36.

Note 2. Summary of Significant Accounting Policy

Expenditures reported on the Schedule are reported on the modified cash basis of accounting as disclosed in Note 1 of the basic financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

The District has elected not to use the 10% de minimus indirect cost rate allowed under Uniform Guidance.

**Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of Modified Cash Basis Financial Statements
Performed in Accordance With Government Auditing Standards**

Independent Auditor's Report

Members of the School Board
Mandaree Public School District No. 36

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Mandaree Public School District No. 36 (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 9, 2019. As discussed in Note 1 of the financial statements, these statements were prepared on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weaknesses. We did identify a certain deficiency in internal control described in the accompanying schedule of findings and questioned costs as 2019-001, that we consider to be a significant deficiency.

Compliance and Other Matters

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

Mandaree Public School District No. 36's Response to the Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Davenport, Iowa
December 9, 2019

**Report on Compliance For the Major Federal Program and
Report on Internal Control Over Compliance
Required by the Uniform Guidance**

Independent Auditor's Report

Members of the School Board
Mandaree Public School District No. 36

Report on Compliance for the Major Federal Program

We have audited Mandaree Public School District No. 36's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2019. The 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the 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 Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 District's compliance.

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the 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 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 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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we considered 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

Davenport, Iowa
December 9, 2019

Mandaree Public School District No. 36

Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

I. Summary of the Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

Yes No

Significant deficiency(ies) identified?

Yes None Reported

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

Yes No

Significant deficiency(ies) identified?

Yes 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 Section 2 CFR 200.516(a) of the Uniform Guidance.

Yes No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
15.042	Indian School Equalization Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?

Yes No

(Continued)

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2019

II. Findings Related to the Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

A. Internal Control

2019-001

Finding: The District's present accounting and data processing systems allow individuals to handle transactions from inception to completion.

Criteria: A system of internal control contemplates an adequate segregation of duties. An adequate segregation of duties requires that no one individual shall handle a transaction from inception to completion. The District has improper segregation of duties over the expenditure/cash disbursement cycle and payroll cycle. In addition, the Business Manager has administrator level access to the general ledger system.

Condition:

- The Business Manager and AP Clerk have the ability to create a purchase order, order goods, enter cash disbursements, process checks, have access to the signature stamp, mail checks, add new vendors and change vendor information and prepare bank reconciliations.
- The Business Manger processes payroll, can change employee information, posts entries to the general ledger, has access to the signature stamp, has the ability to cut checks and make the direct deposit and completes the bank reconciliation.
- The Business Manager has administrator level access to the general ledger system.

Context: Pervasive to cash disbursement and payroll transactions.

Effect: Transaction errors and misappropriation of assets could occur and not be detected in a timely manner.

Cause: A limited number of personnel are available in the District office.

Recommendation: While the District has added the requirement of the Superintendent's receipt of the unopened bank statement, the Superintendent and Board President's review of the bank reconciliations, and approval of purchase orders by the Superintendent, to further strengthen the controls, we recommend an individual independent of the payroll and accounts payable process perform the bank reconciliations. We also recommend the signature stamp be maintained by the individual on the signature stamp or an individual independent of the payroll and accounts payable process. An individual independent of the payroll and accounts payable processes reviewing the changes to employee and vendor records would also strengthen controls. Lastly, we recommend an independent review of the payroll register by an individual without access to the payroll system. An individual other than the Business Manager should have administrator access to the general ledger system.

Management's response: Management agrees with the finding.

B. Compliance Findings

None noted

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2019

III. Findings and Questioned Costs for Federal Awards

A. Internal Controls

None noted

B. Compliance Findings

None noted



Mandaree Public School

SCHOOL DISTRICT NO. 36
PHONE (701) 759-3311 • Business Office: 759-3120
MANDAREE, NORTH DAKOTA 58757

HOME OF
THE WARRIORS

Summary Schedule of Prior Audit Findings For the year Ended June 30, 2018

Material Weaknesses and Significant Deficiencies in Internal Control

2018-001

Finding: The District's year-end financial reporting system was not reconciled to their capital asset listing.

Corrective Actions Taken or Planned: Corrected. The district implements a thorough year-end closing process to reconcile its capital asset listing to the general ledger.

2018-002

Finding: The District's present accounting and data processing systems allow individuals to handle transactions from inception to completion.

Corrective Actions Taken or Planned: Not corrected, See corrective action plan

2018-003

Finding: The District did not properly reconcile the bank statements on a timely basis throughout fiscal year June 30, 2018. This was corrected through the year-end closing process.

Corrective Actions Taken or Planned: Corrected. Bank reconciliations are being prepared timely and thoroughly