

Mandaree Public School District No. 36
Mandaree, North Dakota

Financial and Compliance Report
Year Ended June 30, 2017

Contents

Introductory Section (unaudited)

Table of contents	i
School district officials	ii

Financial Section

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 funds	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

Compliance Section

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 each major federal program and report on internal control over compliance required by the Uniform Guidance	31-32
Schedule of findings and questioned costs	33-38
Summary schedule of prior audit findings	39
Corrective action plan	40-41

Mandaree Public School District No. 36

**School District Officials
Year Ended June 30, 2017**

Official	Position
Lloyd Vigen	Board President
Ted Lone Fight	Board Vice President
Donald McKenzie	Board Member
Rose Ann Johnson	Board Member
Sherry Turner-Lone Fight	Board Member
Carolyn Bluestone and Ann Longie	Superintendent
Abiodun Obidinma	Business Manager



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, 2017, 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, 2017, 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 [date of report] 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
March 30, 2018

Mandaree Public School District No. 36

Management's Discussion and Analysis Year Ended June 30, 2017

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, 2017. Professional standards require the inclusion of certain comparative information in the Management's Discussion and Analysis (MD&A).

Financial Highlights

Key financial highlights for 2017 are as follows:

Total modified cash basis revenues for the fiscal year ended June 30, 2017 of \$6,040,252 were comprised of general revenues in the amount of \$3,885,502 and program revenues totaling \$2,154,750.

Total modified cash basis expenditures increased \$76,334 or 1.4 percent from \$5,452,206 in 2016 to \$5,528,540 in 2017.

As of the close of the current fiscal year, the District's governmental funds (General Fund) reported combined ending fund balance of \$1,543,504 an increase of \$688,270 in comparison with the prior year. Of the total combined fund balance, \$761,698 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, 2017

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 \$9,244,768 from \$8,733,056.

Table 1

	Governmental Activities	
	2017	2016
Assets		
Current and other assets	\$ 1,702,036	\$ 902,503
Capital assets	8,244,264	8,420,822
Total assets	9,946,300	9,323,325
Liabilities		
Other liabilities	158,532	47,269
Long-term liabilities	8	543,000
Total liabilities	158,540	590,269
Net Position		
Net investment in capital assets	7,701,264	7,877,822
Restricted	781,806	606,624
Unrestricted	761,698	248,610
Total net position	\$ 9,244,768	\$ 8,733,056

Mandaree Public School District No. 36

**Management's Discussion and Analysis
Year Ended June 30, 2017**

A restricted portion of the District's net position (8 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$813,786, 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 \$511,712 is mainly attributable to forgiveness of debt.

Table 2 highlights the changes in net position and the District's revenues and expenses for the fiscal years ended June 30, 2017 and 2016.

Revenues are divided into two major categories: program revenues and general revenues. Program revenues are defined as charges for services and sales, operating grants and contributions, and capital grants and contributions. General revenues include taxes, unrestricted grants, rental income, 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	
	2017	2016
Revenues:		
Program revenues:		
Operating grants and contributions	\$ 2,154,750	\$ 2,509,541
General revenues:		
Property taxes	-	18,712
Grants and entitlements	3,304,128	3,431,371
Investment earnings	2,657	4,280
Rental income	117,565	104,162
Other	461,152	1,317,542
Total revenues	6,040,252	7,385,608
Expenses:		
Instruction	3,602,288	3,459,630
Support services	1,926,252	1,992,576
Total expenses	5,528,540	5,452,206
Change in net position	511,712	1,933,402
Net position, beginning of year	8,733,056	6,799,654
Net position, end of year	\$ 9,244,768	\$ 8,733,056

Mandaree Public School District No. 36

**Management’s Discussion and Analysis
Year Ended June 30, 2017**

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 2017	Net Cost of Services 2017	Total Cost of Services 2016	Net Cost of Services 2016
Instruction	\$ 3,602,288	\$ 1,929,442	\$ 3,459,630	\$ 1,470,189
Support services	1,926,252	1,444,348	1,992,576	1,472,476
Total expenses	<u>\$ 5,528,540</u>	<u>\$ 3,373,790</u>	<u>\$ 5,452,206</u>	<u>\$ 2,942,665</u>

The District’s total revenues for governmental activities decreased \$1,345,356, or 18.2 percent, mainly due to the \$1,200,000 debt forgiveness from the Three Affiliated Tribes in 2016. Total expenses increased \$76,334 or 1.4 percent due to an increase in repairs and maintenance to the facilities and equipment.

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 \$1,543,504, an increase of \$688,270 in comparison with the prior year. The unassigned fund balance, which is available for spending at the government’s discretion, was \$761,698 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 15.2 percent and 28.8 percent of total General Fund expenditures, respectively.

General Fund Budgetary Highlights

Revenues were over budget by \$86,844. This was mainly due to higher than expected state revenues.

Expenditures were under budget by \$601,426. 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, 2017**

Capital Assets and Debt Administration

The following table shows ending balances of capital assets by category. At the end of the 2017 fiscal year, the District had invested \$8,244,264 in capital assets. This amount represents a decrease of \$176,558. Additional information about capital assets can be found in Note 4. Total accumulated depreciation of these assets equaled \$2,344,065.

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

	Governmental Activities	
	2017	2016
Construction in progress	\$ 201,600	\$ -
Buildings	7,585,942	7,903,923
Equipment	214,105	214,466
Vehicles	242,617	302,433
Totals	\$ 8,244,264	\$ 8,420,822

Debt

As of June 30, 2017, the District had long-term debt outstanding totaling \$543,000.

Table 5 - Outstanding Debt, as of June 30

	Governmental Activities 2017	Governmental Activities 2016	Maturity
QZAB note payable	\$ 543,000	\$ 543,000	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 2018 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, 2017**

	Governmental Activities
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,338,959
Employee receivables	1,077
Total current assets	1,340,036
Capital assets:	
Construction in progress	201,600
Buildings	9,233,959
Equipment	387,275
Vehicles	765,495
Less accumulated depreciation	(2,344,065)
Total capital assets	8,244,264
Restricted cash for QZAB note payable retirement	362,000
Total noncurrent assets	8,606,264
Total assets	9,946,300
Liabilities	
Current liabilities:	
Due to fiduciary fund	109,294
Payroll withholding liability	49,238
	158,532
Long-term liabilities, long-term debt	543,000
Total liabilities	701,532
Net position	
Net investment in capital assets	7,701,264
Restricted for QZAB note payable retirement	362,000
Restricted for grants	419,806
Unrestricted	761,698
Total net position	\$ 9,244,768

See notes to basic financial statements.

Mandaree Public School District No. 36

**Statement of Activities—Modified Cash Basis
Year Ended June 30, 2017**

	Expenses	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities
Governmental Activities			
Instruction:			
Regular programs	\$ 3,173,797	\$ 1,547,648	\$ (1,626,149)
Special education	428,491	125,198	(303,293)
Total instruction	3,602,288	1,672,846	(1,929,442)
Support services:			
General administration services	404,138	-	(404,138)
Instructional staff services	49,305	-	(49,305)
Operations and maintenance	927,534	407,578	(519,956)
Pupil transportation services	277,722	-	(277,722)
Extracurricular activities	134,270	-	(134,270)
Food services	133,283	74,326	(58,957)
Total support services	1,926,252	481,904	(1,444,348)
Total governmental activities	\$ 5,528,540	\$ 2,154,750	(3,373,790)
General Revenues			
State aid not restricted for specific purpose:			
Per pupil aid			1,693,256
Other state aid			393,996
Federal aid not restricted for a specific purpose, ISEP			
Interest income			1,216,876
Rental income			2,657
Miscellaneous			117,565
Total general revenues			461,152
Change in net position			511,712
Net position, beginning of year			8,733,056
Net position, end of year			\$ 9,244,768

See notes to basic financial statements.

Mandaree Public School District No. 36

Balance Sheet—Modified Cash Basis

Governmental Fund

June 30, 2017

	General Fund
Assets	
Cash and cash equivalents	\$ 1,338,959
Restricted cash for QZAB note payable retirement	362,000
Employee receivables	<u>1,077</u>
Total assets	<u>\$ 1,702,036</u>
Liabilities	
Payroll withholding liability	\$ 49,238
Due to fiduciary fund	<u>109,294</u>
Total liabilities	<u>158,532</u>
Fund balance	
Restricted, QZAB bond retirement	362,000
Restricted, grants	419,806
Unassigned	<u>761,698</u>
Total fund balance	<u>1,543,504</u>
Total liabilities and fund balance	<u>\$ 1,702,036</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, 2017**

Total governmental fund balance	\$ 1,543,504
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:	
Construction in progress	201,600
Buildings	9,233,959
Equipment	387,275
Vehicles	765,495
Accumulated depreciation	(2,344,065)
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>\$ 9,244,768</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, 2017**

	General
Revenues:	
State sources	\$ 2,177,676
Federal sources	3,281,202
Rental income	117,565
Other sources	463,809
Total revenues	<u>6,040,252</u>
Expenditures:	
Instruction:	
Regular programs	3,173,797
Special education	428,491
Total instruction	<u>3,602,288</u>
Support services:	
Current:	
General administration services	404,138
Instructional staff services	49,305
Operations and maintenance	833,765
Pupil transportation services	194,933
Extracurricular activities	134,270
Food service	133,283
Total support services	<u>1,749,694</u>
Total expenditures	<u>5,351,982</u>
Net change in fund balance	<u>688,270</u>
Fund balance, beginning of year	<u>855,234</u>
Fund balance, end of year	<u>\$ 1,543,504</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, 2017**

Net change in fund balance—total governmental funds	\$	688,270
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	\$	201,600
Depreciation expense, net of adjustments		<u>(378,158)</u>
		<u>(176,558)</u>
Change in net position of governmental activities	\$	<u>511,712</u>

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, 2017**

Student
Activity Fund

	Student Activity Fund
Assets	
Cash and cash equivalents	\$ 400
Due from general fund	109,294
	<u>\$ 109,694</u>
Liabilities, due to private individuals	<u>\$ 109,694</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 250 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.

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)

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: The government-wide financial statements and government fund financial statements are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund balance, revenues with the exception of grants received in advance, and expenditures when they result from cash transactions with a provision for depreciation in the government-wide statement. Grants received in advance are recognized as revenue once all eligibility requirements imposed by the provider have been met. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities, including payroll) are not recorded in these financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus. Only current assets and current liabilities recorded under the modified cash basis of accounting described above are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) of available and spendable financial resources during a given period. These funds use fund balance as their measure of available and spendable financial resources at the end of the period.

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.

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)

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 applicable governmental activities column 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.

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.

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)

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.

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 or 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.

Mandaree Public School District No. 36

Notes to Basic Financial Statements

Note 2. Cash and Cash Equivalents

The following is a summary of the cash balances as of June 30, 2017:

Bank	Balance
Cash and cash equivalents—General Fund	\$ 1,338,959
Restricted cash for QZAB note retirement—General Fund	362,000
Cash and cash equivalents—Student Activity Fund	400
	<u>\$ 1,701,359</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, 2017.

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, 2017, \$1,750,441 of the District's bank balance of \$2,060,374 was covered by federal depository insurance or collateral and was not exposed to custodial credit risk. The remaining amount of \$309,933 was 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. The District did not levy any property taxes for fiscal year ended June 30, 2017.

Mandaree Public School District No. 36

Notes to Basic Financial Statements

Note 4. Capital Assets

Capital assets activity for fiscal year ended June 30, 2017 is as follows:

Governmental Activities	Balance June 30, 2016	Additions	(Deletions)/ Adjustments	Balance June 30, 2017
Capital assets, not being depreciated, construction in progress	\$ -	\$ 201,600	\$ -	\$ 201,600
Capital assets, being depreciated:				
Buildings	9,233,959	-	-	9,233,959
Equipment	388,095	-	(820)	387,275
Vehicles	765,495	-	-	765,495
Total capital assets, being depreciated	<u>10,387,549</u>	<u>-</u>	<u>(820)</u>	<u>10,386,729</u>
Accumulated depreciation:				
Buildings	1,330,036	317,981	-	1,648,017
Equipment	173,629	17,287	(17,746)	173,170
Vehicles	463,062	59,816	-	522,878
Total accumulated depreciation	<u>1,966,727</u>	<u>395,084</u>	<u>(17,746)</u>	<u>2,344,065</u>
Total capital assets, being depreciated, net	<u>8,420,822</u>	<u>(395,084)</u>	<u>16,926</u>	<u>8,042,664</u>
Governmental activities capital assets, net	<u>\$ 8,420,822</u>	<u>\$ (193,484)</u>	<u>\$ 16,926</u>	<u>\$ 8,244,264</u>

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

Governmental activities:

Support services:

Operations and maintenance	\$ 308,165
Pupil transportation services	86,919
Total depreciation expense—governmental activities	<u>\$ 395,084</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, 2017:

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017	Balance Due Within One Year
QZAB note payable	\$ 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.

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. That report may be obtained by writing to Teachers' Fund for Retirement, 1930 Burnt Board Drive, PO Box 7100, Bismarck, North Dakota 58507-7100.

Plan members are required to contribute 7.75 percent of their annual covered salary and the District is required to contribute 8.25 percent 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, 2017, 2016 and 2015 were \$361,032, \$408,262 and \$378,553, 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 percent 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 percent 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 percent 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 percent 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 percent 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 percent of each participant's salary as the employer's share. In addition to the 7.12 percent employer contribution, the employer is required to contribute 1.14 percent 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, 2017, 2016 and 2015 were \$105,805, \$92,256 and \$86,870, respectively, of which \$49,366, \$42,320 and \$40,308 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 by writing to NDPERS, 400 East Broadway, Suite 505, PO Box 1657, Bismarck, North Dakota 58502-1657.

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 \$1,800,000 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.

Mandaree Public School District No. 36

Notes to Basic Financial Statements

Note 8. Economic Dependency

The District receives 54 percent of its total revenue from grants from the federal government.

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. Pending Governmental Accounting Standards Board (GASB) Statements

As of June 30, 2017, 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 January 2017. This Statement will be effective for the District with its reporting period June 30, 2020. 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.

Mandaree Public School District No. 36

**Other Information
Budgetary Comparison Schedule
General Fund—Modified Cash Basis
Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Revenues:				
State sources	\$ 2,129,256	\$ 2,129,256	\$ 2,177,676	\$ 48,420
Federal sources	3,755,652	3,755,652	3,281,202	(474,450)
Rental	68,500	68,500	117,565	49,065
Other	-	-	463,809	463,809
Total revenues	5,953,408	5,953,408	6,040,252	86,844
Expenditures:				
Instruction:				
Regular programs	3,749,013	3,749,013	3,173,797	575,216
Special education	490,000	490,000	428,491	61,509
Total instruction	4,239,013	4,239,013	3,602,288	636,725
Support services:				
General administration services	385,998	385,998	404,138	(18,140)
Instructional staff services	-	-	49,305	(49,305)
Operation and maintenance	893,648	893,648	833,765	59,883
Student transportation	200,560	200,560	194,933	5,627
Extracurricular activities	142,527	142,527	134,270	8,257
Food service	91,662	91,662	133,283	(41,621)
Total support services	1,714,395	1,714,395	1,749,694	(35,299)
Total expenditures	5,953,408	5,953,408	5,351,982	601,426
Net change in fund balance	\$ -	\$ -	688,270	\$ (514,582)
Fund balance, beginning of year			<u>855,234</u>	
Fund balance, end of year			<u>\$ 1,543,504</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 2017.
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, 2017**

	Beginning Balance	Additions	Deletions	Ending Balance
Assets				
Cash and cash equivalents	\$ 102,226	\$ 25,269	\$ 127,095	\$ 400
Due from general fund	-	109,294	-	109,294
	<u>\$ 102,226</u>	<u>\$ 134,563</u>	<u>\$ 127,095</u>	<u>\$ 109,694</u>
Liabilities, due to private individuals	<u>\$ 102,226</u>	<u>\$ 25,269</u>	<u>\$ 17,801</u>	<u>\$ 109,694</u>

Mandaree Public School District No. 36

**Schedule of Expenditures of Federal Awards—Modified Cash Basis
Year Ended June 30, 2017**

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Identifying Number	Passed Through To Subrecipients	Expenditures
U.S. Department of Interior				
Bureau of Indian Affairs:				
Indian School Equalization Program	15.042	AADD11A130-145A2100DD-A0E300000.999900.413A00	\$ -	\$ 342,500
Indian School Equalization Program	15.042	AADD11A130-134-ADE300000-999900-413A00	-	1,172,625
Subtotal			-	<u>1,515,125</u>
Indian School, Student Transportation	15.044	AADD11A13G-A0E320000-999900-413A0000	-	93,650
Administrative Cost Grants for Indian Schools	15.046	AADD11A13G-A0E340000-999900.4130000	-	288,187
Indian Education Facilities, Operations and Maintenance	15.047	AADD11A13G-178A2100DD-A0E450000.999900.413A00	-	308,735
Indian Education Facilities, Operations and Maintenance	15.047	AADD11A13G-178A2100DD-A0E450000.999900.413A01	-	163,749
Subtotal			-	<u>472,484</u>
Total U.S. Department of Interior			-	<u>2,369,446</u>
U.S. Department of Agriculture				
Passed Through North Dakota Department of Public Instruction:				
Child Nutrition Cluster:				
School Breakfast Program (Note 3)	10.553	N/A	-	24,701
Commodities (Note 3) noncash	10.555	N/A	-	2,799
National School Lunch Program (Note 3)	10.555	N/A	-	48,763
Subtotal			-	<u>76,263</u>
Fresh Fruits and Vegetables (Note 3)	10.582	N/A	-	882
Total U.S. Department of Agriculture			-	<u>77,145</u>
U.S. Department of Education				
Direct Programs:				
Indian Education Formula Grant	84.060A	S060A140239	-	42,669
Impact Aid	84.041	SO41B-2012-3636	-	244
Bureau of Indian Affairs:				
Special Education	84.027A	AADD11A130-124-A087C2222.000000.AR.DED.97C2 214-413A0000D	-	183,850
Title I, Part A Cluster *	84.010	AADD11A13G-A087F0404.999900.146A2100RM-AR.DED.97F04416.051.413A0000	-	295,688
Title I, Part A Cluster *	84.010	AADD11A13G-168A2100RM-A087G2626.999900.AR.DED.97G26618.051.413A00	-	110,600
Subtotal			-	<u>406,288</u>
Title IIA - Teacher Quality Improvement Funds	84.336	AADD011A13G-168A2100RM-A087B2626.999900.AR.DED.97B26618.051.413A00	-	51,398
Passed Through North Dakota Department of Public Instruction:				
Title I, Part A Cluster *	84.010	N/A	-	262,245
Title IIA - Teacher Principal Quality Training	84.367A	2016-2017 SY	-	26,278
Total U.S. Department of Education			-	<u>972,972</u>
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 3,419,563</u>
* Total Title 1, Part A Cluster			<u>\$ -</u>	<u>\$ 668,533</u>

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, 2017**

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, 2017. 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, changes in net position or cash flows 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 percent 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***

RSM US LLP

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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 30, 2018. 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.

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

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2017-001 and 2017-003 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2017-002 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2017-004.

Mandaree Public School District No. 36's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on 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 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
March 30, 2018



RSM US LLP

**Report on Compliance For Each 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 Each 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 each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying *schedule of findings and questioned costs*.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each 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 each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as items 2017-006 and 2017-007. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance finding identified in our audit are described in the accompanying schedule of findings and questions costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the 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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we considered to be a material weakness. However, we did identify a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-005 that we consider to be a significant deficiency.

The District's response to the internal control over compliance findings identified in our audit are described in the accompanying audit findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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
March 30, 2018

Mandaree Public School District No. 36

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2017**

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)?

Yes No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
15.042	Indian School Equalization Program
84.027A	Special Education

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

Auditee qualified as low-risk auditee?

Yes No

(Continued)

Mandaree Public School District No. 36

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2017**

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

A. Material Weaknesses and Significant Deficiencies in Internal Control

2017-001

Finding: The District's year-end financial reporting system did not provide for certain year-end entries related to revenue, capital assets and restricted fund balance.

Condition: During the audit, we identified amounts related to revenue, capital assets and restricted fund balance that were not recorded properly in the District's financial statements. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

Context: Pervasive to the financial statements as a whole.

Effect: Potential material misstatement of the financial statements.

Cause: Turnover of the Business Manager who is responsible for financial reporting.

Recommendation: We recommend the District implement procedures to ensure all transactions are properly accounted for and recorded in the District's financial statements at year-end.

Management's response: Management agrees with the finding.

2017-002

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.

Mandaree Public School District No. 36

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2017**

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.

2017-003

Finding: The District did not prepare bank reconcile on a timely basis during the fiscal year.

Condition: The District did not reconcile the bank accounts without reconciling errors during the year. As of year-end there was a reconciling difference of approximately \$46,000.

Context: All bank accounts.

Cause: Due to turnover at the Business manager position as well as lack of cash reconciliations being performed on a timely basis each month.

Effect: Not completing bank reconciliations timely can result in misstatements and missed transactions. It could potentially result in over drafting bank accounts and misappropriation of assets.

Recommendation: We recommend that management implement a secondary individual with the proper training and knowledge to be able to perform reconciliations in the event of a business manager departure.

Management's response: Management agrees with the finding.

Mandaree Public School District No. 36

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2017**

Compliance Findings

2017-004

Finding: The District used restricted activity fund monies to pay operational expenses that did not qualify for the restricted use.

Criteria: Restricted monies are required to be used for the specific restricted purpose only.

Condition: The District transferred approximately \$109,000 from a restricted bank account to an unrestricted bank and subsequently used the funds in fiscal year 2017. Subsequently, an adjustment to record a payable from the General Fund to the Activities Fund was made by the District.

Cause: The former Business manager did not draw on federal funds that were required for the District to pay operational expenses.

Effect: Improper usage of restricted Activity Fund monies.

Recommendation: We recommend that management implement a secondary individual with the proper training and knowledge to be able to draw down funds in the event of a business manager departure.

Management's response: Management agrees with the finding.

III. Findings and Questioned Costs for Federal Awards

A. Internal Controls

**U.S. Department of Interior
Bureau of Indian Affairs
Indian School Equalization Program (CFDA 15.042)
Federal Award Year: 2017**

**U.S. Department of Education
Bureau of Indian Affairs
Special Education (84.027)
Federal Award Year: 2017**

2017-005

Finding: The District does not have a system in place to ensure the quarterly financial expenditure reports are filed on a timely basis according to grant requirements.

Criteria: The grant agreement requires quarterly SF-425 reports to be filed within 30 days of the end of each quarter.

Mandaree Public School District No. 36

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2017**

Condition: Quarterly reports were not filed on a timely basis with the granting agencies according to the granting agreements. The reports for 2017 quarters one through four were all filed on September 9, 2018.

Questioned costs: None

Context: All 2017 quarterly reports were not filed in a timely manner.

Effect: Potential impact to future federal funding.

Cause: Due to turnover and resource constraints at the District.

Recommendation: We recommend the District provide proper training to individuals to allow for multiple people to be able to file the quarterly reporting packages timely.

Management's response: Management agrees with the finding.

B. Compliance Findings

2017-006

**U.S. Department of Interior
Bureau of Indian Affairs
Indian School Equalization Program (CFDA 15.042)
Federal Award Year: 2017**

**U.S. Department of Education
Bureau of Indian Affairs
Special Education (84.027)
Federal Award Year: 2017**

Finding: The quarterly SF-425 reports were not filed on a timely basis. See finding at 2017-005.

Questioned costs: None

2017-007

**U.S. Department of Education
Bureau of Indian Affairs (Direct)
Special Education (CFDA 84.027A)**

Finding: Grant funds were not placed in a fully insured and/or collateralized bank account.

Criteria: Per the Grant agreement, the grant funds are to be held in a fully insured or collateralized bank account.

Condition: Grant monies received were not deposited in a bank account that was fully insured or collateralized.

Mandaree Public School District No. 36

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2017**

Questioned costs: None

Context: As of June 30, 2017, \$309,933 of the District's funds were uncollateralized and uninsured.

Effect: Potential loss of federal funding.

Cause: Turnover in the business manager responsible for these duties.

Recommendation: We recommend the District deposit grant monies into an account that is fully insured or collateralized.

Management's response: Management agrees with the finding.



Mandaree Public School

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MANDAREE, NORTH DAKOTA 58757

HOME OF
THE WARRIORS

Summary Schedule of Prior Audit Findings For the year ended June 30, 2017

Material Weaknesses and Significant Deficiencies

2016-001

Finding: The District's year-end financial reporting system did not provide for certain year-end entries related to cash, receivables and revenue, capital assets and restricted fund balance.

Corrective Action Taken: Not corrected, see corrective action plan

2016-002

Finding: The District's schedule of expenditures of federal awards for the fiscal year ended June 30, 2016 was adjusted to include all expenditures paid for with federal funds.

Corrective Action Taken: The District implemented a processing system that ensures that all expenditures are properly accounted for.

2016-003

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

Corrective Action Taken: Not corrected, see corrective action plan

Findings and Questioned Costs for Federal Awards

Compliance Findings

2016-004

Finding: The Single Audit reporting package was not submitted to the Federal Clearinghouse within the required time period and an extension was not granted by the oversight agency.

Corrective Action Taken: The single audit report has since been submitted and the District has a system that ensures that reports are submitted on time.



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Corrective Action Plan Year Ended June 30, 2017

Material Weaknesses and Significant Deficiencies in Internal Control

2017-001

Finding: The District's year-end financial reporting system did not provide for certain year-end entries related to receivables and revenue, capital assets and restricted fund balance.

Corrective Actions Taken or Planned: The district will implement a more robust year-end accounting process to accurately adjust these balances.

2017-002

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

Corrective Actions Taken or Planned: Segregation of duties has since been implemented.

Superintendent approves all purchase orders and invoices, Assistant Manager processes vendor payments, while Business Manager double checks all transactions for accuracy and reconciles vendor accounts.

The Assistant Manager processes payroll while the Business Manager verifies and approves the disbursements of funds.

2017-003

Finding: The District did not prepare bank reconciliations on a timely basis during the fiscal year.

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

Compliance Findings

2017-004

Finding: The District used restricted activity fund monies to pay operational expenses that did not qualify for the restricted use.

Corrective Actions Taken or Planned: Necessary adjustments have been made and the funds have since been returned back to the activity fund

Findings and Questioned Costs for Federal Awards

Internal Controls

2017-005

Finding: The District does not have a system in place to ensure the quarterly financial expenditure reports are filed on a timely basis according to grant requirements.



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Corrective Actions Taken or Planned: The District has implemented a system that ensures that all reports are filed on a timely basis.

Compliance Findings

2017-006

Finding: The quarterly SF-425 reports were not filed on a timely basis. See finding at 2017-005.

Corrective Actions Taken or Planned: The quarterly report has since been filed and the school has a system that ensures that reports are filed on a timely basis.

2017-007

Finding: Grant funds were not placed in a fully collateralized bank account.

Corrective Actions Taken or Planned: The District will ensure that grant funds are fully collateralized.

