

MINNEWAUKAN PUBLIC SCHOOL DISTRICT NO. 5
Minnewaukan, North Dakota

AUDIT REPORT
For the Year Ended June 30, 2017

LERVIK
&
JOHNSON

Certified Public Accountants

MINNEWAUKEN PUBLIC SCHOOL DISTRICT NO. 5
Minnewauken, North Dakota

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For the Year Ended June 30, 2017

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MINNEWAUKEN PUBLIC SCHOOL DISTRICT NO. 5
Minnewauken, North Dakota

SCHOOL OFFICIALS
June 30, 2017

<u>Official</u>	<u>Position</u>
Kathy Lalum	Board President
Dave Ambers	Board Vice-president
Anna Tice	Board Member
Michele Anderson	Board Member
Leona LaRoque	Board Member
Jean Cullahan	Superintendent
Tracie Volk	Business Manager

LERVIK & JOHNSON

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Governing Board
Minnewauken Public School District No. 5
Minnewauken, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Minnewauken Public School District No. 5, Minnewauken, North Dakota, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 evaluation 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 financial position of the governmental activity and the major fund of Minnewauken Public School District No. 5, Minnewauken, North Dakota, as of June 30, 2017 and the respective changes in financial position in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 32, the schedule of district's share of net pension liability for the last ten fiscal years on page 33, the schedule of the district's contributions for the last ten fiscal years on page 34, and the related notes on page 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financials statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Minnewauken Public School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financials statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2017, on our consideration of Minnewauken Public School 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Minnewauken Public School District's internal control over financial reporting and compliance.



LERVIK & JOHNSON
Certified Public Accountants
Bottineau, North Dakota

December 6, 2017

MINNEWAUKEN PUBLIC SCHOOL DISTRICT NO. 5
Minnewauken, North Dakota

STATEMENT OF NET POSITION
June 30, 2017

ASSETS:

Current Assets:

Cash and Cash Equivalents	\$ 1,579,465.90
Restricted Cash Equivalents	1,629,624.43
Taxes Receivable	10,300.26
Due from Other Funds	59,182.15
Due from Local Sources	36,039.20
Due from State Government	20,247.00
Due from Federal Government	544,367.28
	3,879,226.22

Total Current Assets

3,879,226.22

Noncurrent Assets:

Capital Assets (Net of Accumulated Depreciation)	11,337,635.95
Restricted Cash Equivalents	200,150.57
	11,537,786.52

Total Noncurrent Assets

11,537,786.52

Total Assets

15,417,012.74

Deferred Outflows of Resources:

Deferred Outflows Relating to Pension	864,416.76
	864,416.76

LIABILITIES:

Current Liabilities:

Accounts Payable	20,222.90
Due to Other Funds	59,182.15
Current Portion of Long-Term Debt	1,075,000.00
	1,154,405.05

Total Current Liabilities

1,154,405.05

Noncurrent Liabilities:

Long-Term Debt, Net of Current Portion	5,883,000.00
Premium on Bonds Payable, Net of \$1,427.55 of Accumulated Amortization	21,659.06
Net Pension Liabilities	3,853,876.00
	9,758,535.06

Total Noncurrent Liabilities

9,758,535.06

Total Liabilities

10,912,940.11

Deferred Inflows of Resources:

Deferred Inflows Relating to Pension	145,108.00
	145,108.00

NET POSITION:

Net Investment in Capital Assets	4,357,976.89
Restricted for:	
Food Service	102,060.67
Debt Service	1,473,249.87
Unrestricted	(709,906.04)
	4,122,380.39

Total Net Position

\$ 5,223,381.39

The accompanying notes are an integral part of these financial statements.

MINNEWAUKEN PUBLIC SCHOOL DISTRICT NO. 5
Minnewauken, North Dakota

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	Expenses	Program Revenues			Net (Expense) Revenue and Changes In Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
GOVERNMENTAL ACTIVITIES:					
Regular Programs	\$ 2,619,383.14	\$ 26,606.50	\$ -	\$ -	\$ (2,592,776.64)
Special Education	5,000.00	-	-	-	(5,000.00)
Vocational Education	84,505.79	-	-	-	(84,505.79)
Federal Programs	594,015.51	-	580,585.12	-	(13,430.39)
Other Programs and Services	67,384.02	-	-	-	(67,384.02)
Administration	498,305.68	-	-	-	(498,305.68)
Food Service	330,329.28	39,655.05	216,501.99	-	(74,172.24)
Operations and Maintenance	456,386.47	-	-	-	(456,386.47)
Transportation	392,124.93	-	204,953.00	-	(187,171.93)
Student Activities	106,214.62	-	10,455.36	-	(95,759.26)
Interest	237,313.78	-	-	-	(237,313.78)
Bond Fees	41,854.87	-	-	-	(41,854.87)
Total Governmental Activities	\$ 5,432,818.09	\$ 66,261.55	\$ 1,012,495.47	\$ -	\$ (4,354,061.07)

General Revenues:

Property Taxes	170,680.36
Federal aid-not restricted to specific programs	1,416,176.61
State aid-not restricted to specific programs	2,622,864.03
Earnings on investments and miscellaneous revenue	<u>250,821.09</u>
Total General Revenues	<u>4,460,542.09</u>
Change in Net Position	<u>106,481.02</u>
Net Position - July 1	<u>6,428,679.75</u>
Restatement (Note 17)	<u>(1,311,779.38)</u>
Net Position - July 1 as Restated	<u>5,116,900.37</u>
Net Position - June 30	<u><u>\$ 5,223,381.39</u></u>

The accompanying notes are an integral part of these financial statements.

MINNEWAUKEN PUBLIC SCHOOL DISTRICT NO. 5
Minnewauken, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2017

	General	Special Revenue	Capital Projects	Debt Service	Total Governmental Funds
ASSETS:					
Current Assets:					
Cash and Cash Equivalents	\$ 1,360,570.03	\$ 85,416.17	\$ 133,479.70	\$ -	\$ 1,579,465.90
Restricted Cash Equivalents	356,525.13	-	-	1,273,099.30	1,629,624.43
Taxes Receivable	9,954.49	-	345.77	-	10,300.26
Due from Other Funds	24,182.15	35,000.00	-	-	59,182.15
Due from Local Sources	35,985.82	-	53.38	-	36,039.20
Due from State Government	20,247.00	-	-	-	20,247.00
Due from Federal Government	536,843.38	7,523.90	-	-	544,367.28
Total Current Assets	2,344,308.00	127,940.07	133,878.85	1,273,099.30	3,879,226.22
Noncurrent Assets:					
Restricted Cash Equivalents	-	-	-	200,150.57	200,150.57
Total Assets	\$ 2,344,308.00	\$ 127,940.07	\$ 133,878.85	\$ 1,473,249.87	\$ 4,079,376.79
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:					
Current Liabilities:					
Accounts Payable	\$ 18,525.65	\$ 1,697.25	\$ -	\$ -	\$ 20,222.90
Due to Other Funds	35,000.00	24,182.15	-	-	59,182.15
Total Current Liabilities	53,525.65	25,879.40	-	-	79,405.05
Deferred Inflows of Resources:					
Property Taxes Uncollected	9,954.49	-	345.77	-	10,300.26
Fund Balances:					
Restricted	356,525.13	-	133,533.08	1,473,249.87	1,963,308.08
Committed	-	102,060.67	-	-	102,060.67
Unassigned	1,924,302.73	-	-	-	1,924,302.73
Total Fund Balances	2,280,827.86	102,060.67	133,533.08	1,473,249.87	3,989,671.48
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,344,308.00	\$ 127,940.07	\$ 133,878.85	\$ 1,473,249.87	\$ 4,079,376.79

The accompanying notes are an integral part of these financial statements.

MINNEWAUKEN PUBLIC SCHOOL DISTRICT NO. 5
Minnewauken, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
For the Year Ended June 30, 2017

Total Fund Balances for Governmental Funds \$ 3,989,671.48

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 are not reported in the governmental funds.

Cost of Capital Assets	12,919,358.46	
Less Accumulated Depreciation	<u>(1,581,722.51)</u>	
Net Capital Assets		11,337,635.95

Property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred inflows of resources in the governmental funds.

10,300.26

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the Statement of Net Position.

Balances at June 30, 2017 are:

Bonds Payable	(3,180,000.00)	
Contracts Payable	(3,778,000.00)	
Net Pension Liability	<u>(3,853,876.00)</u>	
Net Amount		(10,811,876.00)

Premiums on bonds payable are treated as other financing sources in the governmental funds, but are deferred to future periods in the Statement of Net Position (amortized against interest expense over the life of the bonds).

(21,659.06)

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred Outflows of Resources Related to Pensions	864,416.76	
Deferred Inflows of Resources Related to Pensions	<u>(145,108.00)</u>	

Total Net Position of Governmental Activities \$ 5,223,381.39

The accompanying notes are an integral part of these financial statements.

MINNEWAUKEN PUBLIC SCHOOL DISTRICT NO. 5
Minnewauken, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

	General	Special Revenue	Capital Projects	Debt Service	Total Governmental Funds
Revenues:					
Local Sources	\$ 345,412.63	\$ 39,655.05	\$ 5,471.85	\$ 640.02	\$ 391,179.55
State Sources	2,861,564.03	-	-	-	2,861,564.03
Federal Sources	2,007,217.09	216,501.99	-	-	2,223,719.08
Other Sources	-	-	64,264.00	-	64,264.00
Total Revenues	5,214,193.75	256,157.04	69,735.85	640.02	5,540,726.66
Expenditures:					
Current:					
Regular Programs	2,213,036.34	-	-	-	2,213,036.34
Special Education	5,000.00	-	-	-	5,000.00
Vocational Education	84,505.79	-	-	-	84,505.79
Federal Programs	594,015.51	-	-	-	594,015.51
Other Programs and Services	67,384.02	-	-	-	67,384.02
Administration	498,305.68	-	-	-	498,305.68
Food Service	35,000.00	295,329.28	-	-	330,329.28
Operations and Maintenance	422,779.47	-	13,607.00	20,000.00	456,386.47
Transportation	326,895.98	-	-	-	326,895.98
Student Activities	106,214.62	-	-	-	106,214.62
Capital Outlay	89,295.00	-	78,660.46	-	167,955.46
Debt Service:					
Principal	-	-	-	85,000.00	85,000.00
Interest	-	-	64,640.00	174,117.72	238,757.72
Bond Fees	20,415.87	-	-	21,439.00	41,854.87
Total Expenditures	4,462,848.28	295,329.28	156,907.46	300,556.72	5,215,641.74
Excess (Deficiency) of Revenues Over (Under) Expenditures	751,345.47	(39,172.24)	(87,171.61)	(299,916.70)	325,084.92
Other Financing Sources (Uses):					
Transfers In	43,390.61	23,288.74	64,640.00	170,179.83	301,499.18
Transfers Out	(258,108.57)	-	-	(43,390.61)	(301,499.18)
Proceeds from Bond Refinancing	-	-	-	1,058,103.00	1,058,103.00
Total Other Financing Sources (Uses)	(214,717.96)	23,288.74	64,640.00	1,184,892.22	1,058,103.00
Net Change in Fund Balances	536,627.51	(15,883.50)	(22,531.61)	884,975.52	1,383,187.92
Fund Balance - July 1	1,705,115.87	52,919.89	156,052.56	588,274.35	2,502,362.67
Restatement (Note 17)	39,084.48	65,024.28	12.13	-	104,120.89
Fund Balance - July 1 (As Restated)	1,744,200.35	117,944.17	156,064.69	588,274.35	2,606,483.56
Fund Balance - June 30	\$ 2,280,827.86	\$ 102,060.67	\$ 133,533.08	\$ 1,473,249.87	\$ 3,989,671.48

The accompanying notes are an integral part of these financial statements.

MINNEWAUKEN PUBLIC SCHOOL DISTRICT NO. 5
Minnewauken, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

Net Change in Fund Balances-Total Governmental Funds \$ 1,383,187.92

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Current Year Capital Outlay	167,955.46	
Current Year Depreciation Expense	<u>(341,552.51)</u>	
Net Amount		(173,597.05)

Proceeds from issuing noncurrent liabilities provide current financial resources to governmental funds, but issuing debt increases noncurrent liabilities in the Statement of Net Position. Repayment of noncurrent liabilities is an expenditure in the governmental funds, but the repayment reduces noncurrent liabilities in the Statement of Net Position. Additionally, premiums or discounts related to the debt are included in the Statement of Net Position and amortized to interest expense over the life of the debt in the Statement of Activities.

Proceeds from Bond Refinance	(1,058,103.00)	
Repayment of Debt	85,000.00	
Amortization of Premium on Bond Payable	<u>1,443.94</u>	
Net Amount		(971,659.06)

Some revenues reported in the Statement of Activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of the decrease in taxes receivable.

(1,427.55)

Governmental funds report district pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employer contribution is reported as pension expense.

(130,023.24)

Change in Net Position of Governmental Activities \$ 106,481.02

The accompanying notes are an integral part of these financial statements.

MINNEWAUKEN PUBLIC SCHOOL DISTRICT NO. 5
Minnewauken, North Dakota

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
June 30, 2017

ASSETS:

Current Assets:

Cash

\$ 23,863.51

LIABILITIES:

Current Liabilities:

Due to Student Activities Groups

23,863.51

NET POSITION:

Unrestricted

\$ -

The accompanying notes are an integral part of these financial statements.

MINNEWAUKAN PUBLIC SCHOOL DISTRICT NO. 5
Minnewaukan, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the school district have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The accompanying financial statements present the activities of the Minnewaukan Public School District No. 5. The school district has considered all potential component units for which the school district is financially accountable and other organizations for which the nature and significance of their relationships with the school district are such that exclusion would cause the school district's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body or an organization being fiscally dependent and (1) the ability of the Minnewaukan Public School District No. 5 to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, Minnewaukan Public School District No. 5.

Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from this unit is combined with data from the primary government. Based on these criteria, there are two blended component units to be included within the Minnewaukan Public School District No. 5 reporting entity. This blended component units are described below:

Minnewaukan Public School District Building Authority - the school board as a legally separate entity created the building authority in December 2012. Its purpose is to aid, assist and foster the planning, development, construction, renovation and improvement of school buildings, furnishing, fixtures and equipment and related facilities for the school district. The school board is the governing board of the building authority.

Minnewaukan School Improvements, LLC - this entity was created as part of the New Markets Tax Credit transaction that was entered into in December 2012 in order to help pay for the new school building. The entity is discussed in greater detail in Note 11.

Complete financial statements for these component units may be obtained by writing to: Tracie Volk, Minnewaukan Public School District, 4675 Highway 281 N, Minnewaukan, ND 58351.

B. Financial Statement Presentation

Government-wide financial statements: The Statement of Net Position and the Statement of Activities display information about the primary government, Minnewaukan School District. These statements include the financial activities of the overall government, except fiduciary activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The Statement of Net Position presents the school district's nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

Under the terms of grant agreements, the school district funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the school district's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Fund Financial Statements: Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Any remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The school district reports the following major governmental funds:

General Fund. This is the school district's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Fund. This is the school district's hot lunch operating fund. It accounts for all financial resources related to food service.

Capital Projects Funds. This the school district's financial resources fund. It accounts for the acquisition, construction, maintenance and insurance of major facilities.

Debt Service Fund. The debt service fund is used to account for financial resources to be used for the repayment of principal and interest on long-term debt.

The school district does not have any nonmajor governmental funds.

The school district reports the following fiduciary fund types:

Agency Fund. This fund accounts for assets held by the school district in a custodial capacity as an agent on behalf of others. The school district's agency fund is used to account for various deposits of the student activity funds.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe how transactions are recorded within the various financial statements, and include the economic resources measurement focus and the current financial resources measurement focus.

Economic resources measurement focus: The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial or non-financial) are reported in the financial statements.

Current financial resources measurement focus: Under this measurement focus, only current financial assets and liabilities are generally included on the balance sheet. The operating statements present sources and uses of available, spendable financial resources during any given period. Using the current financial resources measurement focus, principal and interest on long-term debt, claims and judgments, and compensated absences are recorded as expenditures only when payment is due. This measurement focus also requires capital asset acquisitions to be reported as expenditures, and proceeds of general long-term debt and acquisitions under capital leases to be reported as other financing sources.

Basis of accounting refers to *when* the transactions are recorded, regardless of the measurement focus applied. The school district uses the accrual and the modified accrual bases of accounting, as discussed below.

Government-wide Financial Statements

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the school district gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting in the governmental fund financial statements. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the school district considers revenue to be available if they are collected within 60 days after year-end. All revenues are considered to be susceptible to accrual.

Under the modified accrual basis of accounting, expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, differences exist from accrual accounting related primarily to payments involving long-term assets and liabilities. These differences were discussed above in the explanation of the current financial resources measurement focus.

D. Budgets

Based upon available financial information and requests by the school board, the business manager prepares the school district budget. The budget is prepared for the general fund on the modified accrual basis of accounting. The budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

School district taxes must be levied by the governing board on or before the fifteenth day of August. The taxes levied must be certified to the county August 25. The governing body of the school district may amend its tax levy and budget of the current fiscal year on or before the tenth day of October of each year, but the certification must be filed with the county auditor by October 10. The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.

E. Cash, Cash Equivalents and Investments

Cash and cash equivalents includes amounts in demand deposits, money market accounts and commercial paper. These amounts must be deposited with the Bank of North Dakota or in a financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the uninsured balance.

State statutes authorize the school district to invest in:

- a. Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.
- b. Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- c. Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or by the state.
- d. Obligations of the state.

F. Interfund Transactions

In the governmental fund statements, transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

In the government-wide financial statements, interfund transactions have been eliminated.

G. Capital Assets

Capital assets include plant and equipment, and are reported in the government-wide financial statements. Capital assets are defined by the school district as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Buildings	7 to 50 years
Equipment	5 to 10 years
Vehicles	8 to 10 years
Improvements	15 to 50 years

H. Noncurrent Obligations

Noncurrent obligations include long-term debt and net pension liabilities. In the government-wide financial statements, non-current obligations are reported as liabilities in the governmental activities Statement of Net Position. Bond premiums or discounts are capitalized and amortized over the term of the related obligation. Bond issuance costs are recorded as expenditures when paid.

Long-Term Debt

With respect to the presentation of governmental funds in the governmental fund financial statements, the face amount of debt issued is reported as another financing source. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' Fund for Retirement (TFFR), and additions to/deductions from TFFR's fiduciary net position have been determined on the same basis as they are reported by TFFR. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

I. Fund Equity

Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as non-spendable, restricted, committed, assigned or unassigned.

Non-spendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation.

Committed Fund Balance - represents amounts that can only be used for specific purposes imposed by a formal action of the school district's highest level of decision-making authority, the school board. Committed resources cannot be used for any other purpose unless the school board removes or changes the specified use by the same type of action previously used to commit those amounts, either by resolution or by ordinance.

Assigned Fund Balance - represents amounts the school district intends to use for specific purposes as expressed by the school board or an official delegated the authority to assign amounts. This is the residual classification for all governmental funds other than the general fund. As of June 30, 2017, the school board has not granted any official the right to assign amounts to a specific purpose.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the school district's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications - committed, assigned and then unassigned fund balances. The school district has not established a policy for its use of unrestricted fund balance amounts. As such, it considers committed amounts to be reduced first, followed by assigned amounts, and then by unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: CASH AND CASH EQUIVALENTS

The school district's deposits at year-end were entirely covered by federal depository insurance or by collateral held by the school district's agent in the school district's name.

Restricted Cash Equivalents:

Under the terms of the Series 2012A Taxable Impact Aid Certificates of Indebtedness and Series 2012B Taxable Lease Revenue Bonds, separate accounts must be maintained related to construction, escrow of Impact Aid funds, and a reserve. These accounts consist of cash equivalents and are maintained at Wells Fargo Bank (the trustee). Additionally, cash is maintained at JP Morgan Chase Bank, N.A. related to the New Markets Tax Credit transaction (see Note 11). Balances restricted for debt service (includes the construction and escrow accounts) totaled \$1,629,624.43 and the balance restricted for the reserve (as discussed in Note 12) was \$200,150.57 at June 30, 2017. The amount restricted for the reserve was classified as noncurrent, as it is not expected to be used within one year.

Custodial and Concentration of credit risk:

For deposits and investments, the custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the school district will not be able to recover collateral securities that are in the possession of an outside party. As discussed in Note 1-E, state statutes require the market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. As discussed above, the school district's deposits were adequately protected by insurance or collateral during the current fiscal year. These deposits are Category 1 deposits that include insured and registered investments for which the securities are held by the school district.

Interest rate risk:

Generally, the longer the maturity period of an investment, the greater the sensitivity of its fair value to changes in market interest rates. In accordance with its investment policy, the school district invests its operating funds primarily in short term certificates of deposit and limits the average maturity in accordance with the school district's cash requirements.

NOTE 3: TAXES RECEIVABLE

The taxes receivable represents the past three years of uncollected current and delinquent taxes. No allowance has been established for uncollectible taxes receivable.

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Any material tax collections are distributed after the end of each month.

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments. The first installment includes one-half of the real estate taxes and all the special assessments and the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed. Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15th and receive the discount on the property taxes.

NOTE 4: DUE FROM LOCAL SOURCES

The amount due from local sources consists primarily of amounts due for services to other LEAs, E-Rate, and the cash on hand for taxes collected but not remitted to the school district at June 30.

NOTE 5: DUE FROM STATE GOVERNMENT

The amount due from state government consists of the amounts due from the ND Department of Transportation and the Early Childhood grant.

NOTE 6: DUE FROM FEDERAL GOVERNMENT

The amount due from federal government consists of the final reimbursement claims for Title I, Title II Part A, and the 21st Century Community Learning Centers for the general fund and the summer food program for the special revenue fund.

NOTE 7: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2017:

	Balance 7/1/2016	Increases	Deletions	Balance 6/30/2017
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 53,826.00	\$ -	\$ -	\$ 53,826.00
Capital Assets Being Depreciated:				
Buildings	11,540,470.00	78,660.46	-	11,619,130.46
Equipment	535,215.00	9,000.00	-	544,215.00
Vehicles	621,892.00	80,295.00	-	702,187.00
Total Capital Assets	12,697,577.00	167,955.46	-	12,865,532.46
Less Accumulated Depreciation For:				
Buildings	820,682.00	231,904.69	-	1,052,586.69
Equipment	256,890.00	44,418.87	-	301,308.87
Vehicles	162,598.00	65,228.95	-	227,826.95
Total Accumulated Depreciation	1,240,170.00	341,552.51	-	1,581,722.51
Total Capital Assets Being Depreciated, Net	11,457,407.00	(173,597.05)	-	11,283,809.95
Total Capital Assets, Net	\$ 11,511,233.00	\$ (173,597.05)	\$ -	\$ 11,337,635.95

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

Governmental Activities:	
Regular Programs	\$ 276,323.56
Transportation	65,228.95
Total Depreciation- Governmental Activities	\$ 341,552.51

NOTE 8: ACCOUNTS PAYABLE

Accounts payable consists of amounts owed for goods and services received prior to June 30 and chargeable to the appropriations for the year then ended, but paid subsequent to that date.

NOTE 9: DUE FROM OTHER FUNDS

The amount due from the other funds consists of amounts due to the general fund from the special revenue fund for payroll taxes paid and amounts due to the special revenue fund from the general fund for staff meals per negotiated agreement.

NOTE 10: DEFERRED INFLOWS OF AND OUTFLOWS RESOURCES

Like revenues and expenses, deferrals represent flows of resources into and out of a government during the fiscal year. However, unlike revenues and expenses, which are inflows and outflows of resources related to the period in which they occur, deferrals are related to future periods.

Deferred inflows and outflows on the school district's statement of net position are related to the determination of the school district's net pension liability and pension expense, as detailed in Note 14.

Deferred inflows of resources on the fund financial statements consist of amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting such amounts are measurable but not available. The school district's only deferred inflow of financial resources on its fund financial statements is uncollected property taxes, which are not expected to be collected within the allotted 60 day time period after year end in order to qualify as available under the school district's policy.

Note 11: NEW MARKETS TAX CREDIT

During 2012, the Minnewaukan Public School District (school district) passed resolutions to participate in the New Market Tax Credits (NMTC) Program administered by the United States Treasury Department and the New Markets Tax Credit Coalition in order to obtain funding to build a new school. The NMTC program attracts capital to low income communities by providing private investors with a federal tax credit for investments made in businesses or economic development projects located in financially distressed communities. A NMTC investor receives a tax credit equal to 39 percent of the total Qualified Equity Investment (QEI) made in a Community Development Entity (CDE) and the Credit is realized over a seven-year period, 5 percent annually for the first three years and 6 percent in years four through seven. If an investor redeems a NMTC investment before the seven-year term has run its course, all Credits taken to date will be recaptured with interest. The legal structure and financing mechanisms specific to the school district are described below.

The following outside entities were parties to the NMTC transaction:

- The school district formed a Qualified Active Low-Income Community Business (QALICB), Minnewaukan School Improvements, LLC in order to facilitate the NMTC transaction. The school district is a 95% owner of the QALICB and the City of Minnewaukan is a 5% owner. The QALICB is a blended component unit, as defined in Note 1.
- Chase NMTC Minnewaukan School Investment Fund, LLC (Investment Fund) is the investment fund.
- Chase Community Equity, LLC and Travois New Markets, LLC are the tax credit investors and own 99.99% and 0.01% of the Investment Fund, respectively.
- JP Morgan Chase Bank, N.A. was the bridge lender to the school district. The school district is the leverage lender.
- Travois New Markets Project CDE XIX, LLC (Travois CDE) and CNMC Sub-CDE 16, LLC (Chase CDE) are the CDEs. The Investment Fund is the 99.9% owner of both CDEs.

The following transactions related to the NMTC:

- JP Morgan Chase Bank, N.A. loaned \$9,086,000 to the school district as a two day bridge loan.
- The school district, as lessor, signed a ground lease with the QALICB to lease the school property to the QALICB from 12/4/2012 through 12/4/2077 for a total of \$9,667,530. As partial payment pursuant to this lease, the QALICB paid JP Morgan Chase Bank, N.A. \$9,086,000 in order to extinguish the two day bridge loan owed by the school district.
- The QALICB, as lessor, signed a lease with the school district to lease the school property covered by the ground lease discussed above back to the school district. The lease term was from 12/4/2012 through 12/4/2013, with an automatic annual extension through 12/4/2042. Annual lease payments (which are eliminated in the school district's financial statements because the QALICB is a blended component unit) under this lease are as follows:
 - o \$65,000 on December 1, 2013
 - o \$80,000 on each December 1 from 2014 through 2019
 - o \$135,000 on December 1, 2020
 - o \$670,000 on each December 1 from 2021 through 2077
- The school district loaned the Investment Fund \$9,086,000. The loan requires interest only payments for seven years (through 12/15/2020), with interest at 0.7112%. Beginning 12/1/2021, the note requires annual installments of \$539,603 (which includes principal and interest) through its maturity date of 12/4/2042.
- Chase made an equity investment in the Investment Fund of \$4,118,400. The account set up fee was \$5,000.
- The resulting total funds invested in the Investment Fund was \$13,200,000 (\$9,086,000 plus \$4,118,400, less \$5,000 in fees).
- The Investment Fund distributed this money as follows:
 - o \$11,200,000 qualified equity investment in Travois CDE
 - o \$2,000,000 qualified equity investment in Chase CDE
- The Travois CDE paid \$336,000 in syndication fees to Travois New Markets, LLC, and loaned its remaining \$10,864,000 to the QALICB under two notes. The details are as follows:
 - o Loan A1: \$7,709,842 principal, interest only payments due annually through 12/5/2020, with interest at one percent per annum. Beginning 12/5/2021, the note requires annual installments of \$392,151 (which includes principal and interest) through its maturity date of 12/5/2042.
 - o Loan B1: \$3,154,158 principal, interest only payments due annually through 12/5/2020, with interest at one percent per annum. Beginning 12/5/2021, the note requires annual installments of \$160,432 (which includes principal and interest) through its maturity date of 12/5/2042.
- The Chase CDE loaned its \$2,000,000 to the QALICB under two notes. The details are as follows:
 - o Loan A2: \$1,376,758 principal, interest only payments due annually through 12/5/2020, with interest at one percent per annum. Beginning 12/5/2021, the note requires annual installments of \$70,027 (which includes principal and interest) through its maturity date of 12/5/2042.
 - o Loan B2: \$623,242 principal, interest only payments due annually through 12/5/2020, with interest at one percent per annum. Beginning 12/5/2021, the note requires annual installments of \$31,700 (which includes principal and interest) through its maturity date of 12/5/2042.

Chase Community Equity, LLC has a put option allowing it to sell its 99.9% interest in the Investment Fund to the school district for \$1,000 (plus any taxes on the transfer) at the end of the seven year NMTC compliance period (December 5, 2020). If Chase Community Equity, LLC does not exercise its put option, the school district has a call allowing it to purchase the interest in the Investment Fund from them for fair market value.

If the option described above is exercised and the school district becomes the 99.9% owner of the Investment Fund (which is expected and customary), the school district would own the 99.99% interest in the Investment Fund, so the \$10,864,000 note payable to Travois CDE and \$2,000,000 note payable to Chase CDE Travois would be eliminated, as the Investment Fund is the 99.99% owner of both of the CDEs. In the same vein, the \$9,086,000 leverage loan owed to the school district by the Investment Fund would also be eliminated.

As discussed, it is expected that the put option will be exercised by Chase Community Equity, LLC (as is customary in New Markets Tax Credit Transactions) and no principal payments will be made under the loans discussed above. However, until the put option is exercised, the contract payable is recorded net in the school district's financial statements (\$10,864,000 and \$2,000,000 in loans from the Travois CDE and Chase CDE, respectively, to the QALICB, less \$9,086,000 leverage loan receivable from the Investment Fund). The net amount of \$3,778,000 has been recorded on the school district's Statement of Net Position, and is reflected in the principal and interest payment schedule in Note 12. The interest received under the leverage loan from the Investment Fund is recorded as revenue from other sources in the capital projects fund in the district's statement of revenues, expenditures and changes in fund balances and within earnings on investments and miscellaneous revenue on the statement of activities.

NOTE 12: NONCURRENT LIABILITIES

The following is a summary of changes in the general long-term debt account group for the year ended June 30, 2017:

	Balance 7/1/2016	Increases	Deletions	Balance 6/30/2017
Bonds Payable	\$ 2,230,000.00	\$ 1,035,000.00	\$ 85,000.00	\$ 3,180,000.00
Contracts Payable, Net (Note X)	3,778,000.00	-	-	3,778,000.00
	<u>\$ 6,008,000.00</u>	<u>\$ 1,035,000.00</u>	<u>\$ 85,000.00</u>	<u>\$ 6,958,000.00</u>

Outstanding debt at June 30, 2017 consists of the following issues:

Bonds Payable

\$1,085,000.00 taxable impact aid certificates of indebtedness, series 2012A are due annual installments of \$30,000.00 to \$85,000.00, including interest, through August 1, 2032; interest at 5.25%. \$ 950,000.00

\$1,000,000.00 taxable lease revenue bonds, series 2012B, due in annual installments ranging from \$55,000.00 to \$105,000.00, including interest, through August 1, 2032; interest ranges from 3% to 5.15%. 1,195,000.00

\$1,035,000.00 refunding certificates of indebtedness, series 2016, issued on December 20, 2016, are due annual installments of \$50,000.00 to \$80,000.00, including interest, through August 1, 2032; interest ranges from 1.50% to 4%. 1,035,000.00

Total 3,180,000.00
 Current Portion (1,075,000.00)

Net Long-Term Portion \$ 2,105,000.00

The net proceeds of \$1,035,000.00 refunding certificates of indebtedness, Series 2016 included a premium of \$23,103.00. During the current year, \$1,443.94 of the premium was amortized against interest expense in the Statement of Activities, resulting in an unamortized premium of \$21,659.06. Additionally, all of the above bonds terms mandate the established of a reserve fund with a balance equal to the least of (i) 10% of the aggregate principal amount of the bonds, (ii) 125% of the average annual principal and interest due on the bonds, or (iii) 100% of the maximum annual debt service on the bonds. Refer to Note 2 for further discussion with respect to restricted cash and the terms of the bond.

Contracts Payable, Net

Loans payable to Travois CDE, see details
 in New Markets Tax Credit Note \$10,864,000.00

Loans payable to Chase CDE, see details
 in New Markets Tax Credit Note 2,000,000.00

Loan receivable from Investment Fund, see
 details in New Markets Tax Credit Note (9,086,000.00)

\$3,778,000.00

The annual requirements to amortize the long-term debt (including the bonds payable and capital leases) are as follows:

Year Ending June 30	Principal	Interest	Total
2018	\$ 1,075,000.00	\$ 238,303.75	\$ 1,313,303.75
2019	105,000.00	210,403.75	315,403.75
2020	115,000.00	207,267.50	322,267.50
2021	3,893,000.00	203,807.50	4,096,807.50
2022	120,000.00	71,652.50	191,652.50
2023-2027	655,000.00	292,210.00	947,210.00
2028-2032	810,000.00	140,550.00	950,550.00
2033	185,000.00	4,303.75	189,303.75
Totals	<u>\$ 6,958,000.00</u>	<u>\$ 1,368,498.75</u>	<u>\$ 8,326,498.75</u>

The school district will receive approximately \$64,000.00 in interest income annually through the year ending June 30, 2021 related to the \$9,086,000.00 leverage loan to the investment fund.

NOTE 13: FUND BALANCE

Fund balance as of June 30, 2017 is as follows:

	General	Special Revenue	Capital Projects	Debt Service	Total
Fund Balances:					
Restricted:					
Debt Service	\$ 356,525.13	\$ -	\$ -	\$ 1,473,249.87	\$ 1,829,775.00
Capital Projects	-	-	133,533.08	-	133,533.08
Committed:					
Food Service	-	102,060.67	-	-	102,060.67
Unassigned	1,924,302.73	-	-	-	1,924,302.73
	<u>\$ 2,280,827.86</u>	<u>\$ 102,060.67</u>	<u>\$ 133,533.08</u>	<u>\$ 1,473,249.87</u>	<u>\$ 3,989,671.48</u>

NOTE 14: PENSION PLANS

The school district has one employee pension plan, the North Dakota Teachers' Fund for Retirement (TFFR). The following brief description of TFFR is provided for general information purposes only. Participants should refer to NDCC Chapter 15-39.1 for more complete information.

TFFR is a cost-sharing multiple-employer defined benefit pension plan covering all North Dakota public teachers and certain other teachers who meet various membership requirements. TFFR provides for pension, death and disability benefits. The cost to administer the TFFR plan is financed by investment income and contributions.

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

Pension Benefits

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

Tier 1 Grandfathered

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

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

Tier 1 Non-grandfathered

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

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

Tier 2

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

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

Death and Disability Benefits

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

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

Member and Employer Contributions

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

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70%. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the school district reported a total liability of \$3,853,876.00 for its proportionate share of TFFR's net pension liability. The net pension liability was measured as of July 1, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The school district's proportion of the net pension liability was based on the school district's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2016, the school district's proportion related to TFFR was 0.263053 percent, which was an increase of 0.000174 percent from its proportion measured as of July 1, 2015.

For the year ended June 30, 2017 the school district recognized total pension expense of \$334,174.00. At June 30, 2017 the school district reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	TFFR	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 18,202.00	\$ 18,247.00
Changes of assumption	321,910.00	-
Net difference between projected and actual earnings on pension plan investments	320,362.00	-
Changes in proportion and differences between district contributions and proportionate share of contributions	1,738.00	126,861.00
District contributions subsequent to the measurement date	202,204.76	-
Total	<u>\$ 864,416.76</u>	<u>\$ 145,108.00</u>

\$202,204.76 reported as deferred outflows of resources related to pensions resulting from the school district's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

	TFFR
Year Ended June 30:	
2017	\$ 93,804.00
2018	93,804.00
2019	172,086.00
2020	123,074.00
2021	37,088.00
Thereafter	(2,753.00)

Actuarial assumptions:

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	TFFR
Inflation	2.75%
Salary Increases	4.25% to 14.50%, varying by service, including inflation and productivity
Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

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

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

As a result of the April 30, 2015 actuarial experience study, the TFFR Board adopted several assumption changes, including the following:

- Investment return assumption lowered from 8% to 7.75%.
- Inflation assumption lowered from 3% to 2.75%.
- Total salary scale rates lowered by 0.25% due to lower inflation.
- Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- Rates of turnover and retirement were changed to better reflect anticipated future experience.
- Updated mortality assumption to the RP-2014 mortality tables with generational improvement.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	58%	7.3%
Global Fixed Income	23%	0.9%
Global Real Assets	18%	5.3%
Cash Equivalents	1%	0.0%

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

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

<u>District's Proportionate Share of Net Pension Liability</u>		
<u>Current Discount</u>		
<u>1% Decrease</u>	<u>Rate</u>	<u>1% Increase</u>
\$ 4,998,767.00	\$ 3,853,876.00	\$ 2,900,290.00

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued TFFR financial report.

TFFR's Comprehensive Annual Financial Report (CAFR) is located at www.nd.gov/rio/sib/publications/cafr/default.htm.

NOTE 15: RISK MANAGEMENT

The Minnewaukan Public School District No. 5 is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The Minnewaukan Public School District No. 5 pays an annual premium to NDIRF for its general liability and automobile insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile.

The Minnewaukan Public School District No. 5 also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The Minnewaukan Public School District No. 5 pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the political subdivision with blanket fidelity bond coverage in the amount of \$1,000,000.00 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The Minnewaukan Public School District No. 5 has insurance with North Dakota Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

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

NOTE 16: TRANSFERS

The general fund transferred \$23,288.74 to the special revenue fund to help pay expenses, \$64,640.00 to the capital projects fund to pay lease expense and \$170,179.83 to the debt service fund to pay principal and interest on debt. The debt service fund transferred \$43,390.61 of the bond refinancing to the general fund.

NOTE 17: RESTATEMENT OF BEGINNING NET POSITION AND FUND BALANCE

The prior period adjustments are due to understatements of accounts receivable for state and federal, an overstatement of taxes receivable, understatement of money due from the general fund to the special revenue fund and an understatement of cash in the general and special revenue funds. Additionally, an increase in the debt related to the New Markets Tax Credit resulted in a decrease to beginning net position of \$1,415,532.

Beginning net position and fund balances were restated as follows:

	<u>Net Position</u>	<u>Fund Balance</u>
Balance July 1, as Previously Reported	\$ 6,428,679.75	\$ 2,502,362.67
Prior Period Adjustment (Correction of Errors)	<u>(1,311,779.38)</u>	<u>104,120.89</u>
Balance July 1, As Restated	<u>\$ 5,116,900.37</u>	<u>\$ 2,606,483.56</u>

NOTE 18: SUBSEQUENT EVENTS

The school district has evaluated subsequent events through December 6, 2017, the date which the financial statements were available to be issued.

MINNEWAUKAN PUBLIC SCHOOL DISTRICT NO. 5
Minnewaukan, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2017

	Original Budget	Actual	Variance Positive (Negative)
<u>Revenues:</u>			
Local Sources	\$ 391,205.00	\$ 345,412.63	\$ (45,792.37)
State Sources	3,284,682.43	2,861,564.03	(423,118.40)
Federal Sources	1,658,806.00	2,007,217.09	348,411.09
Total Revenues	5,334,693.43	5,214,193.75	(120,499.68)
<u>Expenditures:</u>			
Current:			
Regular Programs	2,521,892.61	2,213,036.34	308,856.27
Special Education	256,752.00	5,000.00	251,752.00
Vocational Education	93,536.19	84,505.79	9,030.40
Federal Programs	630,882.59	594,015.51	36,867.08
Other Programs	62,042.63	67,384.02	(5,341.39)
Administration	537,723.98	498,305.68	39,418.30
Operations and Maintenance	412,170.00	422,779.47	(10,609.47)
Food Service	35,000.00	35,000.00	-
Transportation	431,670.00	326,895.98	104,774.02
Student Activities	80,901.00	106,214.62	(25,313.62)
Capital Outlay	-	89,295.00	(89,295.00)
Debt Service:			
Principal	200,000.00	-	200,000.00
Interest	-	-	-
Fees	-	20,415.87	(20,415.87)
Total Expenditures	5,262,571.00	4,462,848.28	799,722.72
Excess (Deficiency) of Revenues Over (Under) Expenditures	72,122.43	751,345.47	679,223.04
Other Financing Sources (Uses):			
Transfers In	-	43,390.61	43,390.61
Transfers Out	-	(258,108.57)	(258,108.57)
Total Other Financing Sources (Uses)	-	(214,717.96)	(214,717.96)
Net Change in Fund Balances	72,122.43	536,627.51	464,505.08
Fund Balance - July 1	1,744,200.35	1,744,200.35	-
Fund Balance - June 30	\$ 1,816,322.78	\$ 2,280,827.86	\$ 464,505.08

See accompanying notes to required supplementary information.

MINNEWAUKAN PUBLIC SCHOOL DISTRICT NO. 5
Minnewaukan, North Dakota

SCHEDULE OF DISTRICT'S SHARE OF NET PENSION LIABILITY
LAST 10 FISCAL YEARS*

ND Teachers' Fund for Retirement:	As of and for the Year Ended June 30,		
	2017	2016	2015
1. District's proportion of the net pension liability (asset)	0.263053%	0.262879%	0.278205%
2. District's proportionate share of the net pension liability (asset)	\$3,853,876.00	\$3,438,077.00	\$2,915,095.00
3. District's covered-employee payroll	\$1,709,119.00	\$1,616,981.00	\$1,613,737.00
4. District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	225.49%	212.62%	180.64%
5. Plan fiduciary net position as a percentage of the total pension liability	59.20%	62.10%	66.60%

* Complete data for these schedules is not available prior to 2015. The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

See accompanying notes to required supplementary information.

MINNEWAUKAN PUBLIC SCHOOL DISTRICT NO. 5
 Minnewaukan, North Dakota

SCHEDULE OF DISTRICT'S CONTRIBUTIONS
 LAST 10 FISCAL YEARS*

	As of and for the Year		
	Ended June 30,		
	2017	2016	2015
<u>ND Teachers' Fund for Retirement:</u>			
Statutorily required contribution	\$217,913.00	\$206,155.00	\$173,475.00
Contributions in relation to the statutorily required contribution	(\$217,913.00)	(\$206,155.00)	(\$173,475.00)
Contribution deficiency (excess)	\$0.00	\$0.00	\$0.00
District's covered-employee payroll	\$1,709,119.00	\$1,616,981.00	\$1,613,737.00
Contributions as a percentage of covered-employee payroll	12.75%	12.75%	10.75%

* Complete data for these schedules is not available prior to 2015.

See accompanying notes to required supplementary information.

MINNEWAUKAN PUBLIC SCHOOL DISTRICT NO. 5
Minnewaukan, North Dakota

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2017

NOTE 1: BUDGETARY COMPARISON SCHEDULE

Basis of Accounting:

Based upon available financial information and requests by the school board, the business manager prepares the school district budget. The budget is prepared for the general fund on the modified accrual basis of accounting. The budget includes the proposed expenditures and the means of financing them. The school district does not prepare a budget for the special revenue fund, capital projects fund, or debt service fund, as state law does not require a budget for those funds.

Since a budget was not prepared, the statement comparing budget and actual results could not be prepared. All annual appropriations lapse at year-end.

Relevant Dates:

School district taxes must be levied by the governing board on or before the fifteenth day of August. The taxes levied must be certified to the county auditor by August 25. The governing body of the school district may amend its tax levy and budget of the current fiscal year on or before the tenth day of October of each year, but the certification must be filed with the county auditor by October 10. The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.

NOTE 2: PENSION PLANS

TFFR Changes of Assumptions. Amounts related to TFFR reported in 2016 and later reflect the following actuarial assumption changes based on the results of an actuarial experience study dated April 30, 2015.

- Investment return assumption lowered from 8% to 7.75%.
- Inflation assumption lowered from 3% to 2.75%.
- Total salary scale rates lowered by 0.25% due to lower inflation.
- Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- Rates of turnover and retirement were changed to better reflect anticipated future experience.
- Updated mortality assumption to the RP-2014 mortality tables with generational improvement.

MINNEWAUKAN PUBLIC SCHOOL DISTRICT NO. 5
Minnewaukan, North Dakota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education:			
Direct Programs:			
Impact Aid	84.041B	N/A	<u>\$ 1,416,176.61</u>
Pass-through programs from:			
State Department of Public Instruction:			
Title I Grants to Local Educational Agencies	84.010	F84010	485,475.35
Improving Teacher Quality	84.367A	F84367	<u>23,257.47</u>
Total Pass-through from State Department of Public Instruction			508,732.82
North Central Education Cooperative:			
21st Century Community Learning Centers	84.287	None	<u>71,852.30</u>
Total Pass-Through Programs			<u>580,585.12</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>1,996,761.73</u>
U.S. Department of the Interior:			
Pass-through program from Spirit Lake Indian Tribe			
Indian Education Assistance to Schools- Johnson- O'Malley	15.130	None	<u>10,455.36</u>
TOTAL U.S. DEPARTMENT OF THE INTERIOR			<u>10,455.36</u>
U.S. Department of Agriculture:			
Pass-through program from State			
Department of Public Instruction:			
Child Nutrition Cluster:			
National School Lunch Program:			
Cash Assistance	10.555	F10555	133,455.64
Non-Cash Assistance (Commodities)	10.555	None	<u>14,888.45</u>
National School Lunch Program Subtotal			148,344.09
School Breakfast Program	10.553	F10553	52,870.68
Summer Food Service Program	10.559	F10559	<u>7,523.90</u>
TOTAL CHILD NUTRITION CLUSTER			208,738.67
Fresh Fruit and Vegetable Program	10.582	F10568	<u>7,763.32</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE (PASS-THROUGH PROGRAMS)			<u>216,501.99</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,223,719.08</u>

See accompanying notes to schedule of expenditures of federal awards.

MINNEWAUKAN PUBLIC SCHOOL DISTRICT NO. 5
Minnewaukan, North Dakota

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Minnewaukan Public School District No. 5, Minnewaukan, North Dakota 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 (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operations of the school district, it is not intended to and does not present the financial position or changes in net position of the school district.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on this schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. CFR Part 225, *Cost Principles for State, Local and Indian Tribe Governments*, wherein certain types of expenditures are allowable or are limited as to reimbursement.

L & J JOHNSON

Certified Public Accountants

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

Governing Board
Minnewauken Public School District No. 5
Minnewauken, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Minnewauken Public School District No. 5, Minnewauken, North Dakota, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Minnewauken Public School District No. 5, Minnewauken, North Dakota's basic financial statements and have issued our report thereon dated December 6, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Minnewauken Public School District No. 5, Minnewauken, North Dakota'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 Minnewauken Public School District No. 5, Minnewauken, North Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of Minnewauken Public School District No. 5, Minnewauken, North Dakota's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, items 17-1 through 17-3, to be material weaknesses.

Compliance and Other Matters

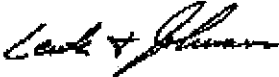
As part of obtaining reasonable assurance about whether Minnewauken Public School District No. 5, Minnewauken, North Dakota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnewauken Public School District No. 5, Minnewauken, North Dakota's Response to Findings

Minnewauken Public School District No. 5, Minnewauken, North Dakota's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Minnewauken Public School District No. 5, Minnewauken, North Dakota'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



LERVIK & JOHNSON
Certified Public Accountants

December 6, 2017

L & J JOHNSON

Certified Public Accountants

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

Governing Board
Minnewauken Public School District No. 5
Minnewauken, North Dakota

Report on Compliance for Each Major Federal Program

We have audited Minnewauken Public School District No. 5, Minnewauken, North Dakota's compliance with the types of compliance requirements described in the OMB Circular Compliance Supplement that could have a direct and material effect on each of Minnewauken Public School District No. 5, Minnewauken, North Dakota's major federal programs for the year ended June 30, 2017. Minnewauken Public School District No. 5, Minnewauken, North Dakota's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Minnewauken Public School District No. 5, Minnewauken, North Dakota'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 audit requirements 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Minnewauken Public School District No. 5, Minnewauken, North Dakota'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 Minnewauken Public School District No. 5, Minnewauken, North Dakota's compliance.

Opinion on Each Major Federal Program

In our opinion, Minnewauken Public School District No. 5, Minnewauken, North Dakota, 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.

Report on Internal Control Over Compliance

Management of Minnewauken Public School District No. 5, Minnewauken, North Dakota, 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 Minnewauken Public School District No. 5, Minnewauken, North Dakota's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Minnewauken Public School District No. 5, Minnewauken, North Dakota's internal control over compliance.

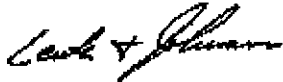
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 17-1 to 17-3 to be significant deficiencies.

Minnewauken Public School District No. 5, Minnewauken, North Dakota's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Minnewauken Public School District No. 5, Minnewauken, North Dakota'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



LERVIK & JOHNSON
Certified Public Accountants

December 6, 2017

MINNEWAUKEN PUBLIC SCHOOL DISTRICT NO. 5
Minnewauken, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the general purpose financial statements of Minnewauken Public School District No. 5, Minnewauken, North Dakota.
2. Three deficiencies disclosed during the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. The deficiencies are reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of Minnewauken Public School District No. 5, Minnewauken, North Dakota were disclosed during the audit.
4. Three significant deficiencies in internal control over major programs are reported in the Independent Auditor's Report on Compliance For Each Major Program and on Internal Control over Compliance required by the Uniform Guidance. The deficiencies are not reported as material weaknesses.
5. The auditor's report on compliance for the major federal award programs for Minnewauken Public School District No. 5, Minnewauken, North Dakota expresses an unmodified opinion on all major federal programs.
6. Any audit findings that are required to be reported in accordance with Uniform Guidance-2CFR 200.516(a) for Minnewauken Public School District No. 5, Minnewauken, North Dakota are reported in this schedule.
7. The programs tested as major programs are: Impact Aid (CFDA Number 84.041B) and Title I (CFDA Number 84.010).
8. The threshold for distinguishing Type A and B programs was \$750,000.00.
9. Minnewauken Public School District No. 5, Minnewauken, North Dakota was not determined to be a low-risk auditee.

FINDINGS-FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESS

17-1 Segregation of Duties

Condition:

Minnewauken Public School District No. 5, Minnewauken, North Dakota, has one business manager responsible for most accounting functions.

Criteria:

There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over the assets of the District.

Effect:

There is no segregation of duties as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements. This increases the risk of misstatement of the District's financial condition.

Recommendation:

Due to the size of the District, it is not feasible to obtain proper separation of duties and no recommendation will be made.

Client Response:

At the present time the Minnewauken Public School District No. 5 has segregated the accounting duties in the most effective manner possible, given its limited staff. Due to cost constraints, there will be no further administrative employees added.

17-2 Preparation of Financial Statements

Condition:

The school district does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to assist in drafting the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Criteria:

A good system of internal accounting control contemplates a system designed to prepare financial statements in accordance with generally accepted accounting principles.

Effect:

Inadequate controls over financial reporting of the school district result in the more than remote likelihood that the school district would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation:

While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the school district and changes in reporting requirements.

Management's Response:

Since it is not cost-effective for an organization our size to have staff to prepare audit-ready financial statements, we have chosen to hire Lervik and Johnson P.C., a public accounting firm, to assist in the preparation of the financial statements as part of their annual audit of Minnewaukan Public School District No. 5.

17-3 Cash Reconciliations

Condition:

The school district's cash accounts were not reconciled to the bank statements regularly during the year ended June 30, 2017.

Criteria:

A good system of internal accounting control contemplates a system designed to reconcile cash accounts in order to ensure proper recording of financial transactions.

Effect:

Discrepancies in the school district's financial ledger accounts could remain undetected by management of the school district. Examples of such discrepancies include lack of recording actual activity in the general ledger, recording activity incorrectly, and recording activity within the wrong fund.

Cause:

The cash accounts were not reconciled to the bank statement on a monthly basis.

Recommendation:

We recommend that the school district ensures that all cash accounts are reconciled to the corresponding bank statement on a monthly basis.

Management's Response:

We are aware of this issue and plan to ensure that cash accounts are reconciled on a monthly basis.

FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

SIGNIFICANT DEFICIENCIES

The deficiencies described above as Findings 17-1 through 17-3 are significant deficiencies, although not material weaknesses, in internal control over major federal programs.