

**SURREY PUBLIC SCHOOL DISTRICT NO. 41  
SURREY, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**ROSTER OF SCHOOL OFFICIALS - UNAUDITED**  
**AT JUNE 30, 2016**

Tracey Day	President
Shelley Lee	Vice President
Becky Bertsch	Board Member
Jason Feller	Board Member
Stephanie Munos	Board Member
Darice Burdick	Business Manager
Terry Voiles	Superintendent



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Surrey Public School District No. 41  
Surrey, North Dakota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Surrey Public School District No. 41, as of and for the year ended June 30, 2016, 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 evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Surrey Public School District No. 41, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

#### **Prior Period Adjustment**

As described in Note 12 to the financial statements, the District's compensated absences calculated as of June 30, 2015 did not include certain employees eligible for disbursement upon termination. Compensated absences have been recalculated to include these employees. The District's health insurance payable calculated as of June 30, 2015 did not include the multiple months year end payable. Health insurance payable has been recalculated to include this liability. As a result, beginning net position has been restated to reflect these changes as of July 1, 2015. Our opinions are not modified with respect to these matters.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Information***

The roster of school officials on page 1 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.  
GRAND FORKS, NORTH DAKOTA**

February 17, 2017

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**JUNE 30, 2016**

The discussion and analysis of Surrey Public School District's financial performance provides an overall review of the District's financial activities for the year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for 2016 are as follows:

- Net Position of the District decreased \$22,053 as a result of current year operations.
- Governmental net position totaled \$(2,459,468).
- Total revenues from all sources were \$5,329,409.
- Total expenses were \$5,351,462.
- The District's General Fund had \$4,918,346 in total revenues and other financing sources and \$5,116,675 in expenditures.
- Overall the General Fund balance decreased by \$198,329 for the year ended June 30, 2016.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements and related footnotes. These statements are organized so the reader can understand Surrey Public School District No. 41 as a financial whole. The statements then proceed to provide an increasingly detailed look at specific activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term, as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with the non-major funds presented in a separate column as identified.

**REPORTING THE SCHOOL DISTRICT AS A WHOLE**

**Statement of Net Position and the Statement of Activities**

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did the District do financially during the year ended June 30, 2016?" The Statement of Net Position and the Statement of Activities answers this question. These statements include all assets, deferred inflows and outflows of resources, and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED  
JUNE 30, 2016

These two statements report the District's net position and changes in that position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the District's property tax base, current property tax laws in North Dakota, facility condition, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the District reports governmental activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

## **REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS**

### **Fund Financial Statements**

Fund financial statements provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund, Building Fund, and the Food Service Fund.

### **Governmental Funds**

The School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

## **FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

Recall that the Statement of Net Position provides the perspective of the District as a whole.

Table 1 provides a summary of the District's net position as of June 30, 2016.

As indicated in the financial highlights, the District's net position decreased by \$22,053 for the year ended June 30, 2016. Net position may serve over time as a useful indicator of the District's financial position.



**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**  
**JUNE 30, 2016**

The District's net position of \$(2,459,468) is segregated into three separate categories. Net investment in capital assets (net of related debt) is not available for future spending. Restricted net position represents resources that are subject to external restrictions on how they must be spent. The unrestricted net position is available to meet the District's ongoing obligations.

**Table 1**  
**Statement of Net Position**

	2016	As Restated 2015
Assets		
Current Assets	\$ 589,154	\$ 459,167
Capital Assets	3,358,545	3,013,967
Total Assets	3,947,699	3,473,134
Deferred Outflows of Resources		
Cost Sharing Defined Benefit Pension Plan	947,948	373,669
Liabilities		
Current Liabilities	270,844	138,510
Long-Term Liabilities	6,976,956	5,629,173
Total Liabilities	7,247,800	5,767,683
Deferred Inflows of Resources		
Cost Sharing Defined Benefit Pension Plan	107,315	516,535
Net Position		
Net Investment in Capital Assets	1,553,794	1,649,022
Restricted	236,521	621,234
Unrestricted	(4,249,783)	(4,707,671)
Total Net Position	\$ (2,459,468)	\$ (2,437,415)

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**  
**JUNE 30, 2016**

Table 2 shows the changes in net position for fiscal years ended June 30, 2016 and 2015.

**Table 2 Changes in Net Position**

	2016	As Resated 2015
Revenues		
Program Revenues		
Charges for Services	\$ 153,456	\$ 151,629
Operating Grants and Contributions	355,809	464,087
General Revenues		
Taxes	1,038,689	813,198
State Aid	3,728,001	3,495,399
Investment Earnings	1,935	-
Other Revenues	51,519	96,508
Total Revenues	<u>5,329,409</u>	<u>5,020,821</u>
Expenses		
Regular Instruction	3,075,445	2,816,933
Special Education	237,236	181,502
Vocational Education	90,895	92,164
District Wide Services	161,528	182,505
Administration	575,963	696,999
Operations and Maintenance	555,588	565,821
Student Transportation	74,573	165,345
Student Activities	157,285	149,726
Tuition	105,310	114,298
Food Services	261,153	246,004
Interest and Fees on Long-Term Debt	56,486	29,791
Total Expenses	<u>5,351,462</u>	<u>5,241,088</u>
Changes in Net Position	<u>\$ (22,053)</u>	<u>\$ (220,267)</u>

Property taxes constitute 19.49% and 16.20%, state aid 69.95% and 69.62%, operating grants and contributions 6.68% and 9.24%, and charges for services make up 2.88% and 3.02% of the total revenues of governmental activities of the District for fiscal years 2016 and 2015, respectively.

Regular instruction comprised 10.38% and 10.80% of District expenses for fiscal years 2016 and 2015, respectively.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**  
**JUNE 30, 2016**

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

**Table 3**

	Total Cost for Year Ended 6/30/2016	Net Cost for Year Ended 6/30/2016	As Restated	
			Total Cost for Year Ended 6/30/2015	Net Cost for Year Ended 6/30/2015
Regular Instruction	\$ 3,075,445	\$ (2,974,408)	\$ 2,816,933	\$ (2,645,290)
Special Education	237,236	(115,010)	181,502	(38,560)
Vocational Education	90,895	(90,895)	92,164	(90,964)
District Wide Services	161,528	(161,528)	182,505	(182,505)
Administration	575,963	(575,963)	696,999	(696,999)
Operations and Maintenance	555,588	(555,588)	565,821	(565,318)
Student Transportation	74,573	26,780	165,345	(70,709)
Student Activities	157,285	(157,285)	149,726	(149,726)
Tuition	105,310	(105,310)	114,298	(114,298)
Food Services	261,153	(76,504)	246,004	(41,212)
Interest and Fees on Long-Term Debt	56,486	(56,486)	29,791	(29,791)
<b>Total Expenses</b>	<b>\$ 5,351,462</b>	<b>\$ (4,842,197)</b>	<b>\$ 5,241,088</b>	<b>\$ (4,625,372)</b>

Administration includes expenses associated with administrative and financial supervision of the District.

District wide services include activities involved with assisting staff with the content and process of teaching to pupils.

Operation and maintenance of plant activities involve maintaining the school grounds, buildings and equipment in an effective working condition.

Student transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Regular instruction and special education expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Special education includes costs that support the education of students with other needs.

Vocational education includes expenditures that support the teaching of vocational type instruction.

Student activities include expenses related to student activities provided by the District, which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment and skill improvement.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**  
**JUNE 30, 2016**

Food services include expenses directly dealing with providing breakfast and lunch service to students and staff of the District.

Interest on long-term debt involves the transactions associated with the payment of interest and other related charges to debt of the District.

**FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS**

The focus of the District's governmental funds is to provide information on the near-term inflows, outflows, and balances of available resources. Unassigned fund balance generally may be used as a measure of the District's net resources available for spending at the end of the fiscal year. These funds are accounted for by using the modified accrual basis of accounting. The District's governmental funds had total revenues of \$5,327,613 and \$4,997,412 and net expenditures of \$5,820,999 and \$5,367,225 for the years ended June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, the total fund balance of the District's general fund was \$65,855 and \$264,184 and total fund balance for all the District's governmental funds was \$430,901 and \$324,287, respectively.

**GENERAL FUND BUDGETING HIGHLIGHTS**

During the course of the 2016 fiscal year, the District received \$4,918,346 more revenues and incurred \$241,444 more expenditures than budgeted. This is primarily the result of not budgeting revenues for the current year as well as more instruction expenditures incurred than anticipated during the budgeting process.

**CAPITAL ASSETS**

As of June 30, 2016 and 2015, the District had \$3,358,545 and \$3,013,967, respectively, invested in net capital assets. Table 4 shows total capital asset balances as of June 30, 2016 and 2015. See Note 4 for details.

**Table 4**

	2016	2015
Buildings	\$ 3,219,108	\$ 2,870,132
Equipment	139,437	143,835
Total	\$ 3,358,545	\$ 3,013,967

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**  
**JUNE 30, 2016**

**DEBT ADMINISTRATION:**

As of June 30, 2016, the District had \$7,149,036 in outstanding debt. The net increase in the District debt was \$3,862,292 from June 30, 2015. See Note 5 for details. See below for a description of the District's debt:

	Balance 7/1/2015	Additions	Retirements	Balance 6/30/2016	Due in One Year
Limited Tax Bonds 2013	\$ 490,000	\$ -	\$ 80,000	\$ 410,000	\$ 80,000
2015 GO	-	600,000	-	600,000	55,000
2013 GO	830,814	-	36,063	794,751	37,080
Compensated Absences	70,853	22,795	19,767	73,881	-
Capital Lease	44,130	-	44,130	-	-
Net Pension Liability	4,257,785	2,036,078	1,023,459	5,270,404	-
<b>Total</b>	<b>\$ 5,693,582</b>	<b>\$ 2,658,873</b>	<b>\$ 1,203,419</b>	<b>\$ 7,149,036</b>	<b>\$ 172,080</b>

**FOR THE FUTURE:**

Our enrollment has steadily increased over the past few years; therefore, we will be considering options such as hiring additional staff, including teachers and para-professionals. We will also continue to look at sharing resources with other schools such as instructors, in-service agendas, and equipment.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT:**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. You may request a copy of this report by contacting Darice Burdick, Business Manager, Surrey Public School District, Surrey, ND 58785.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**STATEMENT OF NET POSITION**  
**AS OF JUNE 30, 2016**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Current Assets:	
Cash	\$ 355,373
Intergovernmental Receivables	164,872
Taxes Receivable	68,909
Total Current Assets	589,154
Non-Current Assets:	
Capital Assets	5,113,204
Less Accumulated Depreciation	(1,754,659)
Total Non-Current Assets	3,358,545
<b>TOTAL ASSETS</b>	<b>3,947,699</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Cost Sharing Defined Benefit Pension Plan - TFFR	888,405
Cost Sharing Defined Benefit Pension Plan - NDPERS	59,543
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>947,948</b>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	25,333
Accrued Liabilities	64,011
Interest Payable	9,420
Current Portion of Long-Term Debt	172,080
Total Current Liabilities	270,844
Non-Current Liabilities:	
Compensated Absences	73,881
Bonds Payable (Net of Current Portion)	1,632,671
Net Pension Liability	5,270,404
Total Non-Current Liabilities	6,976,956
<b>TOTAL LIABILITIES</b>	<b>7,247,800</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Cost Sharing Defined Benefit Pension Plan - TFFR	54,620
Cost Sharing Defined Benefit Pension Plan - NDPERS	52,695
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>107,315</b>
<b>NET POSITION</b>	
Net Investment in Capital Assets	1,553,794
Restricted for Capital Projects	185,705
Restricted for Debt Service	50,816
Unrestricted	(4,249,783)
<b>TOTAL NET POSITION</b>	<b>\$ (2,459,468)</b>

See Notes to the Basic Financial Statements

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
<b>GOVERNMENTAL ACTIVITIES</b>				
Regular Instruction	\$ 3,075,445	\$ -	\$ 101,037	\$ (2,974,408)
Special Education	237,236	27,860	94,366	(115,010)
Vocational Education	90,895	-	-	(90,895)
District Wide Services	161,528	-	-	(161,528)
Administration	575,963	-	-	(575,963)
Operations and Maintenance	555,588	-	-	(555,588)
Student Transportation	74,573	-	101,353	26,780
Student Activities	157,285	-	-	(157,285)
Tuition	105,310	-	-	(105,310)
Food Services	261,153	125,596	59,053	(76,504)
Interest and Fees on Long-Term Debt	56,486	-	-	(56,486)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 5,351,462</b>	<b>\$ 153,456</b>	<b>\$ 355,809</b>	<b>(4,842,197)</b>
<b>GENERAL REVENUES</b>				
Property Taxes, Levied for General Purposes				835,925
Property Taxes, Levied for Debt Service				202,764
Aids and Payments from the State				3,728,001
Unrestricted Investment Earnings				1,935
Other Revenues				51,519
<b>TOTAL GENERAL REVENUES</b>				<b>4,820,144</b>
Change in Net Position				(22,053)
Net Position - Beginning				(2,326,345)
Prior Period Adjustment - See Note 12				(111,070)
Net Position - Beginning as Restated				(2,437,415)
Net Position - Ending				\$ (2,459,468)

See Notes to the Basic Financial Statements

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**AS OF JUNE 30, 2016**

ASSETS	General Fund	Building Fund	Food Service	Nonmajor Special Reserve	Total Governmental Funds
Cash	\$ -	\$ 226,848	\$ 89,366	\$ 39,159	\$ 355,373
Property Taxes Receivable	54,010	13,472	-	1,427	68,909
Intergovernmental Receivables	164,872	-	-	-	164,872
Due from Other Funds	-	9,673	-	-	9,673
<b>TOTAL ASSETS</b>	<b><u>\$ 218,882</u></b>	<b><u>\$ 249,993</u></b>	<b><u>\$ 89,366</u></b>	<b><u>\$ 40,586</u></b>	<b><u>\$ 598,827</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>					
Accounts Payable	\$ 25,333	\$ -	\$ -	\$ -	\$ 25,333
Due to Other Funds	9,673	-	-	-	9,673
Accrued Liabilities	64,011	-	-	-	64,011
<b>TOTAL LIABILITIES</b>	<b><u>99,017</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>99,017</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue - Delinquent Taxes	54,010	13,472	-	1,427	68,909
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b><u>54,010</u></b>	<b><u>13,472</u></b>	<b><u>-</u></b>	<b><u>1,427</u></b>	<b><u>68,909</u></b>
<b>FUND BALANCES</b>					
Restricted	-	236,521	-	-	236,521
Assigned	-	-	89,366	39,159	128,525
Unassigned	65,855	-	-	-	65,855
<b>TOTAL FUND BALANCES</b>	<b><u>65,855</u></b>	<b><u>236,521</u></b>	<b><u>89,366</u></b>	<b><u>39,159</u></b>	<b><u>430,901</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b><u>\$ 218,882</u></b>	<b><u>\$ 249,993</u></b>	<b><u>\$ 89,366</u></b>	<b><u>\$ 40,586</u></b>	<b><u>\$ 598,827</u></b>

See Notes to the Basic Financial Statements



**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**AS OF JUNE 30, 2016**

Total fund balance - governmental funds \$ 430,901

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore are not reported as assets in governmental funds.

Cost	\$	5,113,204	
Less: Accumulated Depreciation		<u>(1,754,659)</u>	
Net			3,358,545

Net deferred outflows(inflows) of resources relating to the cost sharing of defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows(inflows) or resources in the governmental funds. 840,633

Property taxes receivable will be collected during the year, but are not available soon enough to pay for the current period's expenditures, and, therefore are unavailable in the funds. 68,909

Long-term liabilities are not due and payable in the current period and, therefore are not reported as liabilities in the funds. These long-term liabilities consisted of the following:

Bonds Payable	(1,804,751)
Compensated Absences	(73,881)
Net Pension Liability	(5,270,404)

Interest payable is not due and payable in the current period and, therefore is not reported as a liability in the governmental fund. (9,420)

Net Position - Governmental Activities \$ (2,459,468)

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	General Fund	Building Fund	Food Service	Nonmajor Special Reserve	Total Governmental Funds
<b>REVENUES</b>					
Local Property Taxes	\$ 812,547	\$ 202,764	\$ -	\$ 21,582	\$ 1,036,893
Revenue from State Sources	3,951,580	-	2,700	-	3,954,280
Revenue from Federal Sources	101,037	-	56,353	-	157,390
Other Sources	51,519	-	125,596	-	177,115
Interest	1,663	252	-	20	1,935
<b>TOTAL REVENUES</b>	<b>4,918,346</b>	<b>203,016</b>	<b>184,649</b>	<b>21,602</b>	<b>5,327,613</b>
<b>EXPENDITURES</b>					
Current:					
Regular Instruction	2,977,978	-	-	-	2,977,978
Special Education	237,236	-	-	-	237,236
Vocational Education	90,895	-	-	-	90,895
District Wide Services	161,528	-	-	-	161,528
Administration	575,963	-	-	-	575,963
Operations and Maintenance	555,588	-	-	-	555,588
Student Transportation	52,175	-	-	-	52,175
Student Activities	157,285	-	-	-	157,285
Tuition	105,310	-	-	-	105,310
Food Services	138,830	-	122,323	-	261,153
Debt Service:					
Principal Retirement	44,130	116,063	-	-	160,193
Interest	1,757	35,885	-	-	37,642
Issuance Costs	-	15,758	-	-	15,758
Capital Outlay	18,000	414,295	-	-	432,295
<b>TOTAL EXPENDITURES</b>	<b>5,116,675</b>	<b>582,001</b>	<b>122,323</b>	<b>-</b>	<b>5,820,999</b>
Excess (Deficiency) of Revenues Over Expenditures	(198,329)	(378,985)	62,326	21,602	(493,386)
<b>OTHER FINANCING SOURCES (USES)</b>					
Issuance of Debt	-	600,000	-	-	600,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>600,000</b>	<b>-</b>	<b>-</b>	<b>600,000</b>
Net Change in Fund Balances	(198,329)	221,015	62,326	21,602	106,614
Fund Balances - Beginning	(241,787)	568,138	27,040	17,557	370,948
Prior Period Adjustment - See Note 12	505,971	(552,632)	-	-	(46,661)
Fund Balances - Beginning as Restated	264,184	15,506	27,040	17,557	324,287
Fund Balances - Ending	<u>\$ 65,855</u>	<u>\$ 236,521</u>	<u>\$ 89,366</u>	<u>\$ 39,159</u>	<u>\$ 430,901</u>

See Notes to the Basic Financial Statements

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Total net change in fund balances - Governmental Funds \$ 106,614

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the useful lives as depreciation expense. In the current period, these amounts are:

Capital Outlay	\$ 432,295	
Depreciation Expense	<u>(87,717)</u>	344,578

Change in net pension liability (1,012,619)

Increase in compensated absences (3,028)

Some revenues will not be collected for several months after the District's fiscal year end. These revenues are not considered "available" revenues in the governmental funds. These consist of:

Net change in deferred property taxes	1,796
---------------------------------------	-------

Changes in deferred outflows and inflows of resources related to net pension liability 983,499

Repayment of long-term debt is reported as an expenditure in governmental funds. However, the repayment reduces long-term liabilities in the statement of net position. 160,193

The issuance of long-term debt provides current financial resources to the government funds, but the issuance of long-term debt increases the liabilities in the statement of net position (600,000)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Accrued interest increased by \$3,086. (3,086)

Change in Net Position - Governmental Activities \$ (22,053)

See Notes to the Basic Financial Statements

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**STATEMENT OF ASSETS AND LIABILITIES- FIDUCIARY FUNDS**  
**AS OF JUNE 30, 2016**

Assets:	
Cash	\$       63,837
Total Assets	<u>\$       63,837</u>

Liabilities:	
Due to Student Groups	\$       63,837
Total Liabilities	<u>\$       63,837</u>

See Notes to the Basic Financial Statements

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF JUNE 30, 2016**

**NOTE 1 DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

The Surrey Public School District operates the public schools in the City of Surrey, North Dakota. There is one elementary school and one junior/senior high school that is enclosed in one building.

Reporting Entity - Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of an organization's governing body and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources. Component units may also include organizations that are fiscally dependent on the District. Fiscal dependence can include the District's approval of the budget, issuance of debt, and/or levying of taxes for the organization.

Based on these criteria, there are no component units to be included within the District's reporting entity.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The District's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

**Basis of Presentation**

The District's basic financial statements consist of government-wide statements and fund financial statements.

**Government-Wide Financial Statements:**

The government-wide financial statements consist of a Statement of Net Position and a Statement of Activities. These statements display information about the District as a whole.

The Statement of Net Position presents the financial condition of the governmental activities of the District at year-end.

The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. The statement identifies the extent to which each governmental function is self-financing or drawing from the general revenues of the District. Direct expenses are expenses that are specifically associated with a service, program or department. The direct expenses are clearly identifiable to a particular function. Program revenues include charges to recipients for goods or services offered by the program, grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the District.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

The Government-wide financial statements do not include fiduciary funds of component units that are fiduciary in nature.

**Fund Financial Statements:**

In order to aid financial management and to demonstrate legal compliance, the District segregates transactions related to certain functions or activities into separate funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The focus of the governmental fund financial statements is on major funds. Each major fund is presented as a separate column in the fund financial statements. Non-major funds are aggregated and presented in a single column. The fiduciary fund is reported by type.

***Fund Accounting***

The District's funds consist of the following:

**Governmental Funds:**

Governmental funds are utilized to account for most of the District's governmental functions. The reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which the obligation will be paid. Fund balance represents the difference between the governmental fund assets, deferred inflows and outflows of resources, and liabilities. The District's major governmental funds are as follows:

**General Fund**

This fund is the general operating fund of the District. It accounts for all financial resources except those requiring to be accounted for in another fund.

**Building Fund**

The Building fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for acquiring school sites, constructing and equipping new school facilities and renovating existing facilities.

**Food Service Fund**

This Food Service fund is used to account for the accumulation of revenue and proceeds and for the payments of expenditures related to the providing of meals at the District.

The District's non-major governmental funds are as follows:

**Special Reserve Fund**

The Special Reserve fund is used to account for the proceeds of certain specific revenue sources that are committed for specified purposes.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

**Fiduciary Funds:**

The reporting focus of fiduciary funds is on net position and changes in net position. The District's only fiduciary fund is an agency fund. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement operations. The District's agency fund consists of the following:

**Student Activity Fund**

The fund accounts for the financial transactions related to the District's student programs.

***Measurement Focus and Basis of Accounting***

**Measurement Focus:**

*Government-wide Financial Statements:*

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred inflows and outflows of resources, and liabilities associated with the operation of the District are included in the statement of net position.

*Fund Financial Statements:*

The governmental funds are accounted for by using a flow of current financial resources measurement focus. Under this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources and uses of current financial resources.

The current financial resources measurement focus differs from the manner, which the governmental activities of the government-wide financial statements are prepared. Due to the difference, the District's financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for government funds.

**Basis of Accounting:**

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Government-wide financial statements are prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The District's governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenues to be available if they are collected within 60 days of the end of its fiscal year. Expenditures are generally recorded as the related fund liability is incurred.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Revenues - Exchange and Non-Exchange Transactions:**

Exchange transactions are transactions in which each party gives and receives essentially equal value. Under the accrual basis of accounting, revenue for exchange transactions is recorded when the exchange takes place. Under the modified accrual basis of accounting, revenue for exchange transactions is recorded when the resources are measurable and available.

Non-exchange transactions include transactions in which the District receives value without directly providing value in return. Non-exchange transactions include property taxes, grants, entitlements, and donations.

Under the accrual basis of accounting, property taxes are recorded as revenue in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recorded in the fiscal year in which all eligibility requirements have been satisfied. Under the modified accrual basis of accounting, revenue from non-exchange transactions must also be available before it is recorded in the financial records of the District.

Major revenue sources susceptible to accrual include: property taxes, intergovernmental revenues and investment income.

**Unearned Revenues:**

Unearned revenue arises when assets are recognized in the financial statements before the revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenues.

On the governmental fund financial statements, receivables that will also not be collected during the availability period have been reported as unavailable revenue.

**Expenses and Expenditures:**

Governmental funds accounting measurement focus is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recorded in the fiscal year in which the related fund liability is incurred. Under the accrual basis of accounting, expenses are recorded when incurred.

**Budgets and Budgetary Accounting:**

The District's Board follows the procedures established by North Dakota law for the budgetary process. The governing body of each School District, annually on or before the last day of July must levy taxes. The governing body of the School District may amend its tax levy and budget for the current fiscal year on or before the tenth day of October of each year. Taxes for School District purposes must be based upon an itemized budget statement which must show the complete expenditure by program of the District for the current fiscal year and the sources of the revenue from which it is to be financed.



**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

The School Board, in levying taxes, is limited by the amount necessary to be raised for the purpose of meeting the appropriations included in the school budget of the current fiscal year, and the sum necessary to be provided as an interim fund, together with a tax sufficient in amount to pay the interest on the bonded debt of the District and to provide a sinking fund to pay and discharge the principal thereon at maturity.

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

1. The administration prepares the District's budget. The budget includes proposed expenditures and the means of financing them. The budget is prepared on the modified accrual basis of accounting.
2. The Board reviews the budget, may make revisions, and adopts the final budget on or before August 15<sup>th</sup> of each year. The budget is then filed with the county auditor by August 25<sup>th</sup> of each year.
3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10<sup>th</sup> of each year. The budget amounts shown in the financial statements are the final authorized amounts.
4. All appropriations lapse at the close of the District's fiscal year. The balance of the appropriation reverts back to each respective fund and is available for future appropriation.

The General fund expenditures were \$241,444 over budget at June 30, 2016. No remedial action is anticipated or required by the school district regarding these excess expenditures.

### **Cash**

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities authorized by state law. Earnings from pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

State statutes authorize the School District to invest in those investments as described in Note 3-b. Investments are stated at fair value. The School District is also permitted to invest the amount required by the North Dakota Insurance Reserve Fund to obtain liability insurance coverage from the Insurance Reserve Fund.

Investments are carried at fair value. The District considers certificates of deposit to be cash.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

**Capital Assets**

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported as assets in the fund financial statements. All capital assets are recorded at cost (or estimated historical cost). The assets are updated for additions and retirements during the District's fiscal year. The District has established a capitalization threshold of \$5,000. Donated fixed assets are recorded at their fair market values at the date received. The District does not have any infrastructure assets. Improvements that significantly extend the useful life of the asset are also capitalized.

The District's land and construction in progress costs are capitalized but are not depreciated. All the remaining capital assets are depreciated over their estimated useful lives on a straight-line basis. The District has established the following useful lives:

Buildings	70 Years
Equipment	5 to 10 Years

**Short-Term and Long-Term Obligations**

All payables and long-term obligations are reported in the District's government wide financial statements. The District's governmental fund financials report only those obligations that will be paid from current financial resources.

**Compensated Absences**

Vacation and sick pay applies to full-time non-certified staff and is recorded as an expenditure when paid.

Vested or accumulated sick leave is reported in the government-wide statement of net position. The District's personnel policy requires a payout of \$10 for each day up to a maximum of 100 days for accumulated sick leave for teachers who have been with the District for 15 years and elects to leave the District. Teachers who have been with the District 10 years and elect to retire will be paid out at \$50 a day. For hourly employees, vacation is capped at 240 hours and is paid out at their hourly rate upon termination. Compensated absences represent the liability of the District for these employee benefits.

**Pensions:**

For the 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 North Dakota Public Employee Retirement System (NDPERS) and Teachers' Fund for Retirement (TFFR) and additions to/deductions from NDPERS and TFFR's fiduciary net position have been determined on the same basis as they are reported by NDPERS and 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.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

**Fund Balance Classifications:**

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

*Restricted* – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed* – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the school board - the District's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* – This classification reflects the amounts constrained by the District's "intent" to be used for specific purposes, but are neither restricted nor committed. The school board and superintendent have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

*Unassigned* – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, the District's preference is to first use restricted resources, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

The school board has set a General Fund minimum fund balance target at 25% of expenditures and recurring transfers.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/expenditure) until then. The District has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents actuarial differences within the NDPERS and TFFR pension plans, as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue – delinquent taxes*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District also has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents the actuarial differences within the NDPERS and TFFR pension plans.

**Net Position**

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

**Inter-fund Activity:**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as inter-fund transfers. Inter-fund transfers are reported as other financing sources/uses in governmental funds.

Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Inter-fund activities within the District's governmental activities and its business-type activities, is eliminated in the statement of activities.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

**Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the School Board and are either unusual in nature or infrequent in occurrence.

**Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Revenue Recognition - Property Taxes**

Taxes receivable consist of current and delinquent uncollected taxes at June 30, 2016.

Property taxes attach as an enforceable lien on property January 1. A five percent reduction is allowed if paid by February 15. Penalty and interest are added March 15 if the first half of the taxes have not been paid. Additional penalties are added October 15 if not paid. Taxes are collected by the county and usually remitted monthly to the School District.

Property tax revenue in the governmental funds is recognized in compliance with National Council of Government Accounting (NCGA) Interpretation 3, *Revenue Recognition - Property Taxes*. This interpretation states that property tax revenue is recorded when it becomes available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Property tax revenue is recorded as revenue in the year the tax is levied in the government - wide financial statements. Property taxes are limited by state laws. All School District tax levies are in compliance with state laws.

**Significant Group Concentrations of Credit Risk**

As of June 30, 2016, the District's receivables consist of amounts due from other governmental units within the State of North Dakota.

**NOTE 3 CASH**

**A. Deposits**

In accordance with North Dakota laws, the District maintains deposits at a depository authorized by the School Board. The depository is a member of the Federal Reserve System.

North Dakota laws require that all public deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal at least 110 percent of the deposits not covered by insurance or bonds.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

Authorized collateral includes the legal investments described below, as well as certain first mortgage notes, and certain other state or local government obligations. North Dakota laws require that securities pledged as collateral be held in safekeeping by the District treasurer or in a financial institution other than that furnishing the collateral.

At June 30, 2016, the carrying amount of the District's deposits was \$419,210 and the bank balance was \$516,020. The entire bank balance was covered by Federal Depository Insurance or by collateral held by the District's agent in the District's name in amounts sufficient to meet North Dakota legal requirements.

**B. Investments**

The District may also invest idle funds as authorized by North Dakota laws, as follows:

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

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer.

Custodial Credit Risk – Investments

The investments are not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement 40.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

**NOTE 4 CAPITAL ASSETS**

The following is a summary of changes in the capital asset account group during the year ended June 30, 2016:

<b>Governmental Activities</b>	Balance Beginning of Year	Additions	Disposals	Balance End of Year
Capital Assets Being Depreciated				
Buildings	\$ 4,330,682	\$ 414,295	\$ -	\$ 4,744,977
Equipment	350,227	18,000	-	368,227
Total Capital Assets Being Depreciated	<u>4,680,909</u>	<u>432,295</u>	<u>-</u>	<u>5,113,204</u>
Less Accumulated Depreciation				
Buildings	(1,460,550)	(65,319)	-	(1,525,869)
Equipment	(206,392)	(22,398)	-	(228,790)
Total Accumulated Depreciation	<u>(1,666,942)</u>	<u>(87,717)</u>	<u>-</u>	<u>(1,754,659)</u>
Net Capital Assets Being Depreciated	<u>3,013,967</u>	<u>344,578</u>	<u>-</u>	<u>3,358,545</u>
Net Capital Assets for Governmental Activities	<u>\$ 3,013,967</u>	<u>\$ 344,578</u>	<u>\$ -</u>	<u>\$ 3,358,545</u>

In the governmental activities statement of activities, depreciation expense was charged to the following governmental functions:

Elementary and Secondary Regular Instruction	\$ 65,319
Transportation	22,398
Total	<u>\$ 87,717</u>

**NOTE 5 LONG-TERM DEBT**

The School District issued a bond and took out loans to provide funding for the construction of additions and improvements to existing facilities. Long-term debt is as follows:

	Balance 7/1/2015	Additions	Retirements	Balance 6/30/2016	Due in One Year
Limited Tax Bonds 2013	\$ 490,000	\$ -	\$ 80,000	\$ 410,000	\$ 80,000
2015 GO	-	600,000	-	600,000	55,000
2013 GO	830,814	-	36,063	794,751	37,080
Compensated Absences	70,853	22,795	19,767	73,881	-
Capital Lease	44,130	-	44,130	-	-
Net Pension Liability	<u>4,257,785</u>	<u>2,036,078</u>	<u>1,023,459</u>	<u>5,270,404</u>	<u>-</u>
Total	<u>\$ 5,693,582</u>	<u>\$ 2,658,873</u>	<u>\$ 1,203,419</u>	<u>\$ 7,149,036</u>	<u>\$ 172,080</u>

General Obligation Building Fund Bonds, Series 2015  
\$600,000 Issued; Maturing 08/01/2026  
Interest Rate is 1% to 3%

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

Limited Tax Bonds, Series 2013  
 \$570,000 Issued; Maturing 08/01/2020  
 Interest Rate is 1% to 1.7%

State School Construction Loan of 2013  
 \$900,000 Issued; Maturing 06/01/2033  
 Interest Rate is 2.82%

Compensated absences and net pension liability are generally liquidated through the general fund.

Interest expense was \$37,642 for the year ended June 30, 2016.

Annual debt service requirements to maturity for the long-term debt are as follows:

Year Ending June 30	2013 Limited Tax Bonds		
	Principal	Interest	Total
2017	\$ 80,000	\$ 5,450	\$ 85,450
2018	80,000	4,650	84,650
2019	80,000	3,570	83,570
2020	85,000	2,168	87,168
2021	85,000	723	85,723
Total	<u>\$ 410,000</u>	<u>\$ 16,561</u>	<u>\$ 426,561</u>

Year Ending June 30	2013 GO Bonds		
	Principal	Interest	Total
2017	\$ 37,080	\$ 22,412	\$ 59,492
2018	38,126	21,366	59,492
2019	39,201	20,291	59,492
2020	40,306	19,186	59,492
2021	41,443	41,443	82,886
2022-2026	225,417	72,042	297,459
2027-2031	259,045	38,415	297,460
2032-2036	114,133	4,851	118,984
Total	<u>\$ 794,751</u>	<u>\$ 240,006</u>	<u>\$ 1,034,757</u>

Year Ending June 30	2015 GO Bonds		
	Principal	Interest	Total
2017	\$ 55,000	\$ 12,001	\$ 67,001
2018	55,000	11,451	66,451
2019	55,000	10,763	65,763
2020	60,000	9,900	69,900
2021	60,000	8,850	68,850
2022-2026	315,000	22,875	337,875
Total	<u>\$ 600,000</u>	<u>\$ 75,840</u>	<u>\$ 675,840</u>



**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

**NOTE 6 FUND BALANCES**

At June 30, 2016, a summary of the governmental fund balance classifications are as follows:

	General Fund	Building Fund	Food Service	Special Reserve	Total
Restricted for:					
Debt Service	\$ -	\$ 50,816	\$ -	\$ -	\$ 50,816
Capital Projects	-	185,705	-	-	185,705
Assigned to:					
Food Service	-	-	89,366	39,159	128,525
Unassigned					
General Fund	65,855	-	-	-	65,855
Total	<u>\$ 65,855</u>	<u>\$ 236,521</u>	<u>\$ 89,366</u>	<u>\$ 39,159</u>	<u>\$ 430,901</u>

**NOTE 7 DEFINED BENEFIT PENSION PLANS - STATEWIDE**

Substantially, all employees of the District are required by state law to belong to pension plans administered by the Teacher's Fund for Retirement (TFFR) or the North Dakota Public Employees Retirement System (NDPERS), both of which are administered on a statewide basis.

Disclosures relating to these plans follow:

**North Dakota Teacher's Fund For Retirement**

The following brief description of TFFR is provided for general information purposes only. Participants should refer to NDCC Chapter 15-39.1 for more complex 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.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

***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.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

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.

**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 70½. 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/Inflows of Resources Related to Pensions.**

At June 30, 2016, the District reported a liability of \$4,843,681 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2015, the Employer's proportion was 0.370353% which was an increase of 0.002416% from its proportion measured at July 1, 2014.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

For the year ended June 30, 2016, the Employer recognized pension expense of \$325,316. At June 30, 2015, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 31,740	\$ -
Changes in actuarial assumptions	543,862	-
Difference between projected and actual investment earnings	-	54,620
Changes in proportion	23,998	-
Contributions paid to TFFR subsequent to the measurement date	288,805	-
Total	\$ 888,405	\$ 54,620

\$288,805 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2017	\$ 59,550
2018	59,550
2019	59,550
2020	169,763
2021	100,758
Thereafter	95,809

**Actuarial Assumptions**

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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, 2015, funding actuarial valuation for TFFR.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Global Equities	57.00%	7.53%
Global Fixed Income	22.00%	1.28%
Global Real Assets	20.00%	5.38%
Cash Equivalents	1.00%	0.00%

**Discount Rate**

The discount rate used to measure the total pension liability was 7.75% percent as of June 30, 2015. 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, 2015, 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, 2015. 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, 2015. The discount rate used to measure the total pension liability changed from 8% to 7.75% based on the investment return assumption change as a result of the April 30, 2015 actuarial experience study.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

**Pension Liability Sensitivity**

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75 percent) or 1 percentage point higher (8.75 percent) than the current rate:

	1% Decrease in Discount Rate 6.75%	Discount Rate 7.75%	1% Increase in Discount Rate 8.75%
School's proportionate share of the TFFR net pension liability:	\$ 6,401,153	\$ 4,843,681	\$ 3,544,782

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

**North Dakota Public Employees' Retirement System**

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees.

**Pension Benefits**

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

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

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

**Death and Disability Benefits**

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

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

**Refunds of Member Account Balance**

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

If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

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

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

**Member and Employer Contributions**

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

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

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

At June 30, 2016, the District reported a liability of \$426,723 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2015, the District's proportion was 0.062755% which was a decrease of 0.000652% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$39,539. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 12,380	\$ -
Changes in actuarial assumptions	-	38,019
Difference between projected and actual investment earnings	-	9,008
Changes in proportion	-	5,668
Contributions paid to NDPERS subsequent to the measurement date	47,163	-
Total	\$ 59,543	\$ 52,695

\$47,163 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017.

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

Year ending June 30:	Pension Expense Amount
2017	\$ (12,693)
2018	(12,693)
2019	(12,693)
2020	5,921
2021	(8,157)
Thereafter	-



**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

**Actuarial Assumptions**

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

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

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2015, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Equity	31.00%	6.90%
International Equity	21.00%	7.55%
Private Equity	5.00%	11.30%
Domestic Fixed Income	17.00%	1.52%
International Fixed Inc.	5.00%	0.45%
Global Real Assets	20.00%	5.38%
Cash Equivalents	1.00%	0.00%

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

**Discount Rate**

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2015. 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, 2015, 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, 2015. 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, 2015.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.00 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.00 percent) or 1 percentage point higher (9.00 percent) than the current rate:

	1% Decrease in Discount Rate 7.00%	Discount Rate 8.00%	1% Increase in Discount Rate 9.00%
School's proportionate share of the NDPERS net pension liability:	\$ 654,359	\$ 426,723	\$ 240,476

**Pension Plan Fiduciary Net Position**

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

**NOTE 8 RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; 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 (NDRIF), 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 District pays an annual premium to NDRIF for its general liability, auto, boiler and machinery, accident and inland marine insurance coverage. The coverage by NDRIF is limited to losses of two million dollars per occurrence.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

The District participates in the North Dakota Fire and Tornado Fund and State Bonding Fund. The District 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 District with blanket fidelity bond coverage with a limit of \$939,000. The State Bonding Fund does not currently charge a premium for this coverage.

The District carries commercial insurance for employee's health and the District also participates in the workers' compensation program through the State of North Dakota. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE 9 CONTINGENT LIABILITIES**

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2016, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**NOTE 10 NON-MONETARY TRANSACTIONS**

The District receives food commodities from the federal government to subsidize its hot lunch program. The market value of commodities received for the year ended June 30, 2016 was \$16,456.

**NOTE 11 NEW PRONOUNCEMENTS**

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This Statement is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 80, *Blending Requirements for Certain Component Units, an Amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

GASB Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

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

**NOTE 12 PRIOR PERIOD ADJUSTMENT**

The District's compensated absences calculated as of June 30, 2015 did not include certain employees eligible for disbursement upon termination. Compensated absences have been recalculated to include these employees. As a result, beginning net position has been restated to reflect the change in compensated absences as of July 1, 2015. As a result, beginning net position has been restated to reflect the change as of July 1, 2015 as below:

Net Position July 1, 2015 as previously reported	\$ (2,326,345)
Restatement for:	
Health insurance payable	(46,661)
Compensated absences	(64,409)
Net Position July 1, 2015 as restated	<u><u>\$ (2,437,415)</u></u>

The District's health insurance payable calculated as of June 30, 2015 did not include the year end health insurance withdrawal from employer summer payouts. Health insurance payable has been recalculated to include this liability. In addition, debt service payments that were being levied for in the building fund were miscoded to the general fund. As a result, fund beginning balances have been restated to reflect the change as of July 1, 2015 as below:

	<u>General</u>	<u>Building</u>
Fund Balance July 1, 2015 as previously reported	\$ (241,787)	\$ 568,138
Restatement for:		
Debt Service Restatement	552,632	(552,632)
Health Insurance Payable	(46,661)	-
Fund Balance July 1, 2015 as restated	<u><u>\$ 264,184</u></u>	<u><u>\$ 15,506</u></u>

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

**NOTE 13 SUBSEQUENT EVENTS**

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through February 17, 2017, which is the date these financial statements were available to be issued.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>			Over (Under) Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Local Property Taxes	\$ -	\$ -	\$ 812,547	\$ 812,547
Revenue from State Sources	-	-	3,951,580	3,951,580
Revenue from Federal Sources	-	-	101,037	101,037
Other Sources	-	-	51,519	51,519
Interest	-	-	1,663	1,663
<b>TOTAL REVENUES</b>	<u>-</u>	<u>-</u>	<u>4,918,346</u>	<u>4,918,346</u>
<b>EXPENDITURES</b>				
Current:				
Regular Instruction	2,915,160	2,915,160	2,977,978	62,818
Special Education	218,796	218,796	237,236	18,440
Vocational Education	-	500	90,895	90,395
District Wide Services	-	157,271	161,528	4,257
Administration	-	546,697	575,963	29,266
Operations and Maintenance	-	547,620	555,588	7,968
Student Transportation	-	82,800	52,175	(30,625)
Services provided to another LEA	-	1,000	-	(1,000)
Student Activities	162,500	162,500	157,285	(5,215)
Tuition	50,000	50,000	105,310	55,310
Food Services	147,000	147,000	138,830	(8,170)
Debt Service:				
Principal Retirement	45,887	45,887	44,130	(1,757)
Interest	-	-	1,757	1,757
Capital Outlay	-	-	18,000	18,000
<b>TOTAL EXPENDITURES</b>	<u>3,539,343</u>	<u>4,875,231</u>	<u>5,116,675</u>	<u>241,444</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(3,539,343)</u>	<u>(4,875,231)</u>	<u>(198,329)</u>	<u>4,676,902</u>
Net Change in Fund Balances	<u>(3,539,343)</u>	<u>(4,875,231)</u>	<u>(198,329)</u>	<u>4,676,902</u>
Fund Balances - Beginning	<u>(241,787)</u>	<u>(241,787)</u>	<u>(241,787)</u>	<u>-</u>
Prior Period Adjustment -See Note 12	<u>-</u>	<u>-</u>	<u>505,971</u>	<u>505,971</u>
Fund Balances - Beginning as Restated	<u>(241,787)</u>	<u>(241,787)</u>	<u>264,184</u>	<u>505,971</u>
Fund Balances - Ending	<u>\$ (3,781,130)</u>	<u>\$ (5,117,018)</u>	<u>\$ 65,855</u>	<u>\$ 5,182,873</u>

See Note to the Budgetary Comparison Schedule

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**NOTE TO THE BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE 1 BUDGETARY COMPARISON**

**Budgets and Budgetary Accounting:**

The District's Board follows the procedures established by North Dakota law for the budgetary process. The governing body of each School District, annually on or before the last day of July must levy taxes. The governing body of the School District may amend its tax levy and budget for the current fiscal year on or before the tenth day of October of each year. Taxes for School District purposes must be based upon an itemized budget statement which must show the complete expenditure by program of the District for the current fiscal year and the sources of the revenue from which it is to be financed. The School Board, in levying taxes, is limited by the amount necessary to be raised for the purpose of meeting the appropriations included in the school budget of the current fiscal year, and the sum necessary to be provided as an interim fund, together with a tax sufficient in amount to pay the interest on the bonded debt of the District and to provide a sinking fund to pay and discharge the principal thereon at maturity.

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

1. The administration prepares the District's budget. The budget includes proposed expenditures and the means of financing them. The budget is prepared on the modified accrual basis of accounting.
2. The Board reviews the budget, may make revisions, and adopts the final budget on or before August 15<sup>th</sup> of each year. The budget is then filed with the county auditor by August 25<sup>th</sup> of each year.
3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10<sup>th</sup> of each year. The budget amounts shown in the financial statements are the final authorized amounts.
4. All appropriations lapse at the close of the District's fiscal year. The balance of the appropriation reverts back to each respective fund and is available for future appropriation.



**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**SCHEDULE OF DISTRICT'S CONTRIBUTIONS TO TFFR/NDPERS RETIREMENT PLANS**  
**LAST TEN YEARS**

**Teachers Fund for Retirement**

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2016	\$ 291,731	\$ 291,731	-	\$ 2,288,088	12.75%
2015	290,439	290,439	-	2,278,060	12.75%

**North Dakota Public Employees Retirement System**

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2016	\$ 47,163	\$ 47,163	-	\$ 570,827	8.26%
2015	42,466	42,466	-	559,075	7.60%

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for prior years is not available.

See Note to the Required Supplementary Information

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY**  
**LAST TEN YEARS (PRESENTED PROSPECTIVELY)**

**Teachers Fund for Retirement**

For the Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	District's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.370353%	\$ 4,843,681	\$ 2,278,060	212.62%	62.10%
2015	0.367937%	3,855,327	2,134,233	180.64%	66.60%

**North Dakota Public Employees Retirement System**

For the Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	District's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.370353%	\$ 4,843,681	\$ 2,278,060	212.62%	62.10%
2015	0.367937%	3,855,327	2,134,233	180.64%	66.60%

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30 of the previous fiscal year.

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for prior years is not available.

See Note to the Required Supplementary Information

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016

**NOTE 1 CHANGES OF ASSUMPTIONS**

**TFFR**

Amounts reported in 2016 reflect actuarial assumption changes effective July 1, 2015 based on the results of an actuarial experience study completed in 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.

**NDPERS**

Amounts reported in 2016 reflect actuarial assumption changes effective July 1, 2015 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

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

To the Board of Education  
Surrey Public School District No. 41  
Surrey, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Surrey Public School District No. 41 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 17, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Surrey Public School District No. 41's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, which we consider to be significant deficiencies. See findings 2016-001, 2016-002, 2016-003, 2016-004 and 2016-005.

### **Compliance And Other Matters**

As part of obtaining reasonable assurance about whether Surrey Public School District No. 41's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The District's Response To Findings**

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose Of This Report**

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



**BRADY, MARTZ & ASSOCIATES, P.C.  
GRAND FORKS, NORTH DAKOTA**

February 17, 2017

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**2016-001 Finding**

**Criteria**

To provide reasonable assurance that segregation of duties take place while also taking into account the size of the District.

**Condition**

The organization has one employee who is responsible for all accounting functions involved. The employee handles all income monies, prepares the receipts documents, prepares the deposits, issues all checks and distributes them, receives the bank statements and does the reconciliations. The employee also records the receipts and disbursements to the journals and maintains the general ledger. Considering the size of the entity, it is not feasible to obtain proper separation of duties and the degree of internal control is severely limited.

**Effect**

Lack of segregation of duties leads to a limited degree of internal control.

**Recommendation**

The District should separate the duties when it becomes feasible.

**Management's Response**

Some procedures to promote segregation of duties have been implemented. Funds are counted by other individuals prior to being given to the Business Manager to receipt and deposit at the various financial institutions.

The Superintendent, Building & Grounds Supervisor, Principal and Athletic Director review monthly bills before payments are made.

The Board of Education reviews and approves all checks written.

The District will segregate other duties when feasible.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**2016-002 Finding**

**Criteria**

An appropriate system of internal controls requires that a District make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with accounting principles generally accepted in the United States of America. This requires the District's personnel to maintain a working knowledge of current accounting principles generally accepted in the United States of America and required financial statement disclosures.

**Condition**

The District's auditors prepared the financial statements for the year ended. In addition, adjusting entries were proposed to bring the financial statements into compliance with accounting principles generally accepted in the United States of America (GAAP). An appropriate system of internal controls requires that a District must make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with GAAP. This requires the District's personnel to maintain a working knowledge of current accounting principles generally accepted in the United States of America and required financial statement disclosures.

**Effect**

The District currently does not maintain the working knowledge of current accounting principles generally accepted in the United States of America and required financial statement disclosures to make a determination that financial statements are properly stated in compliance with accounting principles generally accepted in the United States of America.

**Recommendation**

Compensating controls could be provided through client preparation of the financial statement preparation and/or review function.

**Management's Response**

The District will continue to have the auditor prepare the financial statements; however, the District has established an internal control policy to document the annual review of the financial statements.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**2016-003 Finding**

**Criteria**

The general ledger should be complete and accurate with reconciliations and account review analysis being performed on a monthly basis to help detect and avoid potential misstatements. All revenue accounts should be complete and accurate with reconciliations and account review analysis being performed on a monthly basis to help detect and avoid potential misstatements. Revenue should be recorded based off of supporting documentation for sales transactions within the food service fund. Cash receipts should reconcile to the revenue recorded and should be counted and documented by both the individual receiving the money as well as the business manager when provided to the business office.

**Condition**

It was noted that a detailed general ledger account review analysis and reconciliation was not performed on a regular basis throughout the year ended June 30, 2016. Several reconciliations were performed subsequent to year end. Bank reconciliations were not performed in a timely manner. Student body activities accounts were all negative and not monitored throughout the school year. It was noted that food service revenue for meals served was not specifically tracked or reconciled to cash received, but rather the revenue is just recorded based on cash received.

**Context**

When reviewing reconciliations during the audit, it was noted that many were dated later than what would be recommended.

**Effect**

The District did not have proper reconciliations performed in a timely manner. This could result in food service cash being misappropriated and going unrecorded.

**Cause**

This could result in revenue and expense accounts being overstated and understated. Program directors are not able to review budget to actual information for their respective grants on a timely basis which could result in improper reporting and subsequent grant budgeting.

**Recommendation**

We recommend that procedures be implemented to ensure reconciliations be performed on a periodic basis throughout the year and reviewed by management, also to ensure the number of meals served is tracked by type or price level. Program directors should receive detailed general ledger reports on a monthly basis so that they can reconcile to their approved grant budget. This monthly analysis should be kept by program directors to indicate that proper monitoring procedures have been performed. Bank reconciliations should be done monthly by the Business Manager and reviewed and signed off by the Superintendent. Student body activities should be monitored and kept above a negative balance. We also recommend that the cash proceeds for lunches sold is counted and documented by separate staff and then compared and reconciled to the meals sold and deposited by an additional separate staff member

**Management's Response**

The District will implement procedures to correct this finding.



**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**2016-004 Finding**

**Criteria**

All deposits should be brought to the bank weekly at a minimum.

**Condition**

The District inadvertently misplaced a check deposit for \$94,366.26.

**Context**

When doing an analytical test and search of the general ledger, it was noted a check received was not deposited in a timely manner.

**Effect**

The District missed out on any interest earnings the deposit may have earned and could have lost out on the entire amount if not found.

**Cause**

The District did not have controls in place to ensure all deposits were brought to the bank in a timely manner.

**Recommendation**

The District should maintain a tracking system to ensure all deposits are deposited on a timely basis.

**Management's Response**

This District was in process of switching business managers and the deposit was misplaced.

**SURREY PUBLIC SCHOOL DISTRICT NO. 41**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**2016-005 Finding**

**Criteria**

The District did not properly follow bid testing laws required by North Dakota Century Code 15.1-09-34.

**Condition**

The District did not have documentation of bidding that took place for a new roof project.

**Context**

When testing for State procurement requirements, we noted that bid documentation on a roof installation project could not be found. This was the only project needing bids.

**Effect**

The District was not in compliance with state statute code 15.1-09-34.

**Cause**

The project was actually bid in prior years and turnover of the Superintendent position occurred that made the documentation unable to be found.

**Recommendation**

We recommend that procedures be implemented to ensure the formal bidding process is always used and documented when required.

**Management's Response**

The District will maintain bid records in a known location to ensure compliance with the North Dakota Century Code.