



Financial Statements
June 30, 2017

Twin Buttes School District No. 37

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<u>Official</u>	<u>Position</u>
Jessica Howling Wolf	Board President
Gwen Hostler	Board Vice President
Jeb Fredericks	Board Member
Sierra Spotted Bear	Board Member
Dustin Krueger	Board Member
Sandy Starr	Principal
Lori Fredericks	Business Manager



CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the School Board
Twin Buttes School District No. 37
Halliday, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Twin Buttes School District No. 37, Halliday, North Dakota as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information of Twin Buttes School District No. 37, Halliday, North Dakota, as of June 30, 2017, and the respective changes in financial position – modified cash basis thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Twin Buttes School District No. 37, Halliday, North Dakota's financial statements. The School District Officials, Budgetary Comparison Schedule – General Fund, Schedule of Employer's Share of Net Pension Liability – ND Teacher's Fund for Retirement, and Schedule of Employer Contributions – ND Teacher's Fund for Retirement are presented for purposes of additional analysis and are not a required part of the financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements.

The Budgetary Comparison Schedule – General Fund, Schedule of Employer's Share of Net Pension Liability – ND Teacher's Fund for Retirement, Schedule of Employer Contributions – ND Teacher's Fund for Retirement, and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedule – General Fund, Schedule of Employer's Share of Net Pension Liability – ND Teacher's Fund for Retirement, Schedule of Employer Contributions – ND Teacher's Fund for Retirement, and Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The School District Officials listing 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 March 9, 2018, on our consideration of Twin Buttes School District No. 37, Halliday, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Eide Bailly LLP

Bismarck, North Dakota
March 9, 2018

Twin Buttes School District No. 37
Statement of Net Position – Modified Cash Basis
June 30, 2017

	Governmental Activities
Assets	
Current Assets	
Cash	\$ 1,020,916
Total current assets	1,020,916
Noncurrent Assets	
Capital assets, not being depreciated	
Construction in progress	36,225
Capital assets, net of accumulated depreciation	
Equipment	92,417
Vehicles	47,597
Total noncurrent assets	176,239
Total assets	\$ 1,197,155
Net Position	
Net investment in capital assets	\$ 176,239
Restricted for housing	172,939
Unrestricted	847,977
Total net position	\$ 1,197,155

Twin Buttes School District No. 37
Statement of Activities – Modified Cash Basis
Year Ended June 30, 2017

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction	\$ 687,810	\$ -	\$ 528,076	\$ (159,734)
Support Services				
Guidance and library services	114,992	-	-	(114,992)
Administration services	294,609	29,775	163,000	(101,834)
Operations and maintenance	253,482	500	182,840	(70,142)
Transportation services	192,617	-	142,984	(49,633)
Food services	86,701	-	35,717	(50,984)
Non-Education/Facilities	3,921	-	-	(3,921)
Student activities	5,589	-	-	(5,589)
	<u>\$ 1,639,721</u>	<u>\$ 30,275</u>	<u>\$ 1,052,617</u>	<u>(556,829)</u>
General Revenues				
Oil and gas production				73,918
State aid not restricted for a specific purpose				302,109
Per pupil aid				38,804
Other state aid				22,862
Federal aid not restricted for a specific purpose				269,710
Impact aid				366,556
ISEP				910
Other federal aid				7,679
Restitution				1,082,548
Miscellaneous				<u>525,719</u>
Total general revenues				<u>671,436</u>
Changes in net position				\$ 1,197,155
Net position, beginning of year				<u>671,436</u>
Net position, end of year				<u>\$ 1,197,155</u>

Twin Buttes School District No. 37
 Balance Sheet – Governmental Funds – Modified Cash Basis
 June 30, 2017

	<u>General</u>	<u>Quarters</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Assets				
Cash	\$ 693,520	\$ 172,939	\$ 154,457	\$ 1,020,916
Total assets	<u>\$ 693,520</u>	<u>\$ 172,939</u>	<u>\$ 154,457</u>	<u>\$ 1,020,916</u>
Fund balances				
Restricted for housing	\$ -	\$ 172,939	\$ -	\$ 172,939
Assigned for capital project	-	-	154,457	154,457
Unassigned	<u>693,520</u>	<u>-</u>	<u>-</u>	<u>693,520</u>
Total fund balances	<u>\$ 693,520</u>	<u>\$ 172,939</u>	<u>\$ 154,457</u>	<u>\$ 1,020,916</u>

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position – Modified Cash Basis
 June 30, 2017

Total Governmental Fund Balances		\$ 1,020,916
<p>Amounts reported for Governmental Activities in the Statement of Net Position are different because</p> <p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statement, but are reported in the governmental activities of the statement of net position. Those assets consist of</p>		
Cost of capital assets	\$ 254,254	
Less accumulated depreciation	<u>(78,015)</u>	
		<u>176,239</u>
Net position of governmental activities		<u><u>\$ 1,197,155</u></u>

Twin Buttes School District No. 37

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds – Modified Cash Basis
Year Ended June 30, 2017

	General	Quarters	Capital Projects	Total Governmental Funds
Revenues				
Local sources	\$ 81,938	\$ 30,275	\$ -	\$ 112,213
State sources	514,313	-	-	514,313
Federal sources	1,384,457	-	154,457	1,538,914
Total revenues	<u>1,980,708</u>	<u>30,275</u>	<u>154,457</u>	<u>2,165,440</u>
Expenditures				
Current				
Instruction	687,810	-	-	687,810
Support services				
Guidance and library services	114,992	-	-	114,992
Administration services	294,609	-	-	294,609
Operations and maintenance	236,560	6,731	-	243,291
Transportation services	181,433	-	-	181,433
Food services	86,701	-	-	86,701
Non-education/Facilities	3,921	-	-	3,921
Student activities	5,589	-	-	5,589
Capital outlay	46,584	-	-	46,584
Total expenditures	<u>1,658,199</u>	<u>6,731</u>	<u>-</u>	<u>1,664,930</u>
Net change in fund balances	322,509	23,544	154,457	500,510
Fund Balance, Beginning of Year	<u>371,011</u>	<u>149,395</u>	<u>-</u>	<u>520,406</u>
Fund Balance, End of Year	<u>\$ 693,520</u>	<u>\$ 172,939</u>	<u>\$ 154,457</u>	<u>\$ 1,020,916</u>

Twin Buttes School District No. 37

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities – Modified Cash Basis
Year Ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds \$ 500,510

The Change in Net Position reported for Governmental Activities in the Statement of Activities is different because

Governmental funds report capital outlays as expenditures.

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

Capital outlay	\$ 46,584	
Depreciation expense	<u>(21,375)</u>	
		<u>25,209</u>
Change in net position of governmental activities		<u><u>\$ 525,719</u></u>

Twin Buttes School District No. 37
Statement of Fiduciary Assets and Liabilities – Agency Fund – Modified Cash Basis
June 30, 2017

	<u>Agency Fund</u>
Assets	
Cash	<u>\$ 911</u>
Liabilities	
Due to student activities groups	<u>\$ 911</u>

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

Twin Buttes School District No. 37 (School District) operates as a public school for children in grades kindergarten through eight. The School District is in Halliday, North Dakota and is comprised of one elementary school with a student body of approximately 40 students. The School District is governed by the Twin Buttes School District No. 37 Board of Education which is elected in the general elections.

The accompanying financial statements present the activities of the Twin Buttes School District No. 37. The School District has considered all potential component units for which the School District is financially accountable and other organizations for which the nature and significance of their relationships with the School District such that exclusion would cause the School District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criterion includes appointing a voting majority of an organization's governing body and (1) the ability of the School District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the School District.

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

Government-Wide Statements

The statement of net position and statement of activities display information about the School District. These statements include the financial activities of the overall government, except for fiduciary activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. The effect of interfund activity has been eliminated from the government-wide financial statements.

The statement of net position reports all financial and capital resources, in a net position form (assets minus liabilities equal net position). Net position is displayed in three components, as applicable, net investment in capital assets, restricted (distinguished between major categories of restrictions), and unrestricted.

The statement of activities compares the direct expenses and program revenues for the governmental activities of the School District. Direct expenses are clearly identifiable with a specific function. Program revenues consist of operating grants and contributions. General revenues, including taxes, are those revenues that are not classified as program revenue.

Fund Financial Statements

The fund financial statements provide information about the School District's funds including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, displayed in a separate column.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the modified cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred. This basis differs from accounting principles generally accepted in the United States of America because accounts receivable, accounts payable, and accrued expenses are not included in the financial statements. Only capital assets and long-term debt are recorded under the basis of accounting described above and are included on the statement of net position. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. Under this method, revenues are recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred.

The School District reports the following major governmental funds:

General Fund – The general fund is the general operating fund of the School District. All general revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund.

Quarters Fund – The special revenue fund is the School District housing maintenance fund. It accounts for all financial resources and uses related to the maintenance of housing located at the school and rented to employees. This fund is presented as a major fund for public interest purposes.

Capital Projects Fund – The capital projects fund accounts for financial resources and activity of capital projects being undertaken by the School District.

In addition, the School District reports the following fiduciary fund:

The Fiduciary Fund accounts for assets held by the School District in a trustee capacity or as an agent on behalf of others.

Agency Fund – Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds have no equity, assets are equal to liabilities, and do not include revenues and expenditures for general operations of the School District.

Equity Classifications

Equity is classified as net position and is displayed in three components:

Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

Unrestricted net position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets”.

Restricted and Unrestricted Resources

It is the School District’s policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Fund Balance Classifications and Procedures

The School District classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in a spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Business Manager.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The School District uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the School District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The School District does not have a formal minimum fund balance policy.

Program Revenues

In the government-wide statement of activities, reported program revenues derive directly from the program itself or from parties other than the School District’s taxpayers or citizenry, as a whole. Program revenues are classified into two categories, as follows:

1. Charges for services – these arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – these arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.

Cash and Cash Equivalents

The School District's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. These amounts must be deposited in a financial institution situated and doing business within North Dakota.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined as having an individual cost of \$5,000 or more and have a useful life in excess of one year. Capital assets are stated at cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Depreciation is computed using the straight-line method over the following estimated useful lives:

Equipment	10-20 years
Vehicles	5-10 years

All buildings used by the School District in its operations are owned by the Bureau of Indian Affairs. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized and instead are a period expense. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The School District reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment there was no impairment as of June 30, 2017.

Interfund 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 interfund transfers. Interfund 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.

Pensions

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Teachers' Fund for Retirement (TFFR) and additions to/deductions from TFFR's fiduciary net position have been determined on the same basis as they are reported by TFFR. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability is not reported under the modified cash basis of accounting, but the information disclosed in the pension footnote, Note 6, is shown as additional information to the users of the financial statements.

Budgets

The School District budget is prepared on the modified cash basis of accounting and the School District follows these procedures in establishing the budgetary data reflected in the financial statements:

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

For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year.

Estimates

The preparation of the financial statements in conformity with the modified cash basis of accounting 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.

Note 2 - Cash and Cash Equivalents

Deposits

In accordance with North Dakota Statutes, the School District maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in another financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance of bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board.

The bank balance of the pooled School District deposits and fiduciary funds at June 30, 2017 was \$1,157,609. The carrying amount of the deposits was \$1,021,827, which consisted of School District deposits of \$1,020,916, and agency fund deposits of \$911. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$907,609 was collateralized with securities held by the pledging financial institutions' agents in the government's name.

Note 3 - Capital Assets

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

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Governmental activities				
Capital assets, not being depreciated				
Construction in progress	\$ -	\$ 36,225	\$ -	\$ 36,225
Capital assets, being depreciated				
Equipment	140,956	10,359	-	151,315
Vehicles	66,714	-	-	66,714
Total capital assets, being depreciated	207,670	10,359	-	218,029
Accumulated depreciation				
Equipment	48,707	10,191	-	58,898
Vehicles	7,933	11,184	-	19,117
Total accumulated depreciation	56,640	21,375	-	78,015
Governmental activities capital assets, net	\$ 151,030	\$ 25,209	\$ -	\$ 176,239

The School District does not have any buildings as they are owned by the Bureau of Indian Affairs.

Construction in progress at June 30, 2017 represents costs for a cold storage shed. Estimated costs to complete the shed are approximately \$75,000. The shed is expected to be completed in fiscal year 2018.

Depreciation expense was charged to functions/programs of the School District as follows:

Governmental activities	\$	10,191
Operation and maintenance		11,184
Transportation services		<u>11,184</u>
Total depreciation expense - governmental activities	\$	<u>21,375</u>

Note 4 - Operating Lease

The School District had previously entered into an operating lease with MT/WY Dakota States FMC Agency for the purpose of providing buses and other motor vehicles for the School District to utilize in 2007. This agreement with MT/WY Dakota States FMC Agency was renewed in 2013 and is on a month to month payment basis. The District uses the fleet of vehicles provided and pays the Agency based on the amount of miles driven taken by a locked-in monthly rate. The lease has no termination date and is effective until cancelled by either party. The District paid \$84,629 on the operating lease during the year ended June 30, 2017.

The School District has an operating lease beginning November 1, 2014 and ending November 1, 2019 and one beginning November 1, 2015 and ending November 1, 2020 with Advanced Business Methods for the use of digital copiers. The School District pays \$194 and \$161 per month, respectively, over the life of the leases.

	Amount
2018	\$ 4,253
2019	4,253
2020	2,705
2021	644

Note 5 - Risk Management

The School District is exposed to various risks of loss relating to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the School District carries insurance through the following funds/pools established by the State:

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 School District pays an annual premium to NDRIF for its general liability, auto and public asset insurance coverage. The coverage by NDRIF is limited to losses of one million dollars per occurrence. There is no additional liability for the School District related to the risk pool as of June 30, 2017.

The School District also participates in the North Dakota Fire and Tornado Fund and State Bonding Fund. The School 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 \$348,603 per occurrence during a 12-month period. The State Bonding fund provides political subdivisions with blanket employee fidelity bond coverage in the amount of \$568,000. The State Bonding Fund does not currently charge any premium for this coverage.

The School District participates in the North Dakota Workforce Safety and Insurance Fund, an Enterprise Fund of the State of North Dakota. The Fund is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to the employers. The premiums are available for the payment of claims to employees injured in the course of employment.

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

Note 6 - Pension Plan

North Dakota Teachers' Fund for Retirement

The School District contributes to the North Dakota Teacher's Fund for Retirement (TFFR); a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. TFFR provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with chapter 15-39.1 of the North Dakota Century Code. TFFR issues a publicly available financial report that includes financial statements and required supplementary information for TFFR. That report is located on the following website, www.nd.gov/rio, or may be obtained by writing to Teachers' Fund for Retirement, 1930 Burnt Boat Drive, P.O. Box 7100, Bismarck, ND 58507-7100

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

Pension Benefits

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

Tier 1 Grandfathered

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

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

Tier 1 Non-Grandfathered

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

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

Tier 2

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

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

Death and Disability Benefits

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

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

Refunds of Member Account Balances

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.

Member and Employer Contributions

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

Pension Liabilities and Pension Expense

Net Pension Liability

At June 30, 2017, the School District's proportionate share of the net pension liability was \$905,079. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At June 30, 2016, the School District's proportion was .061778 percent, which was a decrease of .011073 percent from its proportion measured as of June 30, 2015. The School District's proportionate share of the net pension liability is not reported in financial statements shown under the modified cash basis of accounting.

Actuarial Assumptions

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

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

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

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

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:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equities	7.30%
Global Fixed Income	0.90%
Global Real Assets	5.30%
Cash Equivalents	0.00%

Discount Rate

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

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

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:

	<u>1% Decrease in Discount Rate (6.75%)</u>	<u>Discount Rate (7.75%)</u>	<u>1% Increase in Discount Rate (8.75%)</u>
Employer's proportionate share of the net pension liability	\$ 1,173,956	\$ 905,079	\$ 681,131

Pension Plan Fiduciary Net Position

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

Note 7 - Economic Dependency

Twin Buttes School District receives a substantial amount of its support from federal and state governments. A significant reduction in the level of this support, if this were to occur, may have a material effect on the District's programs and therefore on its continued operations.



Supplementary Information
June 30, 2017

Twin Buttes School District No. 37

Twin Buttes School District No. 37
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2017

	Original/Final Budget	Actual	Variance with Final Budget
Revenues			
Local sources	\$ 271,857	\$ 81,938	\$ (189,919)
State sources	468,597	514,313	45,716
Federal sources	1,241,357	1,384,457	143,100
Total revenues	<u>1,981,811</u>	<u>1,980,708</u>	<u>(1,103)</u>
Expenditures			
Current			
Instruction	759,787	687,810	71,977
Support services			
Guidance and library services	110,726	114,992	(4,266)
Administration services	384,745	294,609	90,136
Operations and maintenance	237,719	236,560	1,159
Transportation services	163,623	181,433	(17,810)
Food services	110,639	86,701	23,938
Community services	15,000	3,921	11,079
Student activities	16,000	5,589	10,411
Capital outlay	50,000	46,584	3,416
Total expenditures	<u>1,848,239</u>	<u>1,658,199</u>	<u>190,040</u>
Net change in fund balances	<u>133,572</u>	<u>322,509</u>	<u>188,937</u>
Fund Balance, Beginning of Year	<u>371,011</u>	<u>371,011</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 504,583</u>	<u>\$ 693,520</u>	<u>\$ 188,937</u>

Twin Buttes School District No. 37
 Schedule of Employer's Share of Net Pension Liability – ND Teacher's Fund for Retirement
 Year Ended June 30, 2017

	2017	2016	2015
Employer's proportion of the net pension liability	0.061778%	0.072851%	0.075974%
Employer's proportionate share of the net pension liability	\$ 905,079	\$ 952,786	\$ 796,076
Employer's covered payroll	\$ 401,385	\$ 448,113	\$ 440,692
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	225.49%	212.62%	180.64%
Plan fiduciary net position as a percentage of the total pension liability	59.20%	62.10%	66.60%

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

Twin Buttes School District No. 37
 Schedule of Employer Contributions – ND Teacher’s Fund for Retirement
 Year Ended June 30, 2017

	2017	2016	2015
Statutorily required contribution	\$ 54,766	\$ 51,177	\$ 57,134
Contributions in relation to the statutorily required contribution	(54,766)	(51,177)	(57,134)
Contribution deficiency (excess)	-	-	-
Employer's covered payroll	429,535	401,385	448,113
Contributions as a percentage of covered payroll	12.75%	12.75%	12.75%

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

Notes to Supplementary Information

Changes of Assumptions

Amounts reported in 2017 reflect the following actuarial assumption changes effective July 1, 2016 based on the results of an actuarial experience study dated April 30, 2015.

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



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

To the School Board
Twin Buttes School District No. 37
Halliday, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Twin Buttes School District No. 37 as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Twin Buttes School District No. 37's basic financial statements, and have issued our report thereon dated March 9, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Twin Buttes School District No. 37's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Twin Buttes School District No. 37's internal control. Accordingly, we do not express an opinion on the effectiveness of Twin Buttes School District No. 37's internal control.

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Twin Buttes School District No. 37's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Twin Buttes School District No. 37's Responses to Findings

Twin Buttes School District No. 37's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Twin Buttes School District No. 37's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Eide Bailly LLP

Bismarck, North Dakota
March 9, 2018



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance Required by the Uniform Guidance

To the School Board
Twin Buttes School District No. 37
Halliday, North Dakota

Report on Compliance for Each Major Federal Program

We have audited Twin Buttes School District No. 37's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Twin Buttes School District No. 37's major federal programs for the year ended June 30, 2017. Twin Buttes School District No. 37's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for each of Twin Buttes School District No. 37's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Twin Buttes School District No. 37's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Twin Buttes School District No. 37's compliance.

Opinion on Each Major Federal Program

In our opinion, Twin Buttes School District No. 37 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of Twin Buttes School District No. 37 is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Twin Buttes School District No. 37's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Twin Buttes School District No. 37's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002 that we consider to be significant deficiencies.

Twin Buttes School District No. 37's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Twin Buttes School District No. 37's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

Eide Bailly LLP

Bismarck, North Dakota
March 9, 2018

Twin Buttes School District No. 37
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2017

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Identifying Number	Expenditures
U.S. Department of Education			
Direct			
Impact Aid	84.041		\$ 22,862
Direct			
Small Rural Schools Achievement	84.358A		17,557
Passed through Bureau of Indian Affairs			
Small Rural Schools Achievement	84.358	A16AV00761	214
Total Small Rural Schools Achievement			<u>17,771</u>
Passed through Bureau of Indian Affairs			
IDEA B	84.027	A16AV00761	80,036
Title IIA - Teacher Quality Partnership Grants	84.336	A16AV00761	<u>13,795</u>
Passed through Bureau of Indian Affairs			
Title I Grants to local education agencies	84.010	A16AV00761	97,298
Passed through North Dakota Department of Public Instruction			
Title I Grants to local education agencies	84.010	N/A	<u>70,439</u>
Total Title I Cluster			<u>167,737</u>
Total U.S. Department of Education			<u>302,201</u>
U.S. Department of Interior			
Passed through Bureau of Indian Affairs			
Indian School Equalization Program	15.042	A16AV00761	285,568
Indian School Student Transportation	15.044	A16AV00761	61,860
Administrative Cost Grants for Indian Schools	15.046	A16AV00761	164,219
Indian Education Facilities, Operations and Maintenance	15.047	A16AV00761	250,838
Education Program Enhancements	15.151	A16AV00761	7,640
Total U.S. Department of Interior			<u>770,125</u>
U.S. Department of Agriculture			
Passed through North Dakota Department of Public Instruction			
Fresh Fruit and Vegetable Program	10.582	P11009-09	<u>1,044</u>
Child Nutrition Cluster			
School Nutrition - Lunch	10.555	N/A	33,175
Summer Food Service for Children	10.559	N/A	1,276
Total Child Nutrition Cluster			<u>34,451</u>
Total U.S. Department of Agriculture			<u>35,495</u>
Total Expenditures of Federal Awards			<u>\$ 1,107,821</u>

Note A - Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Twin Buttes School District No. 37 and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Twin Buttes School District No. 37 received federal awards both directly from federal agencies and indirectly through pass-through entities. The School District has not provided any federal financial assistance to a subrecipient.

Note B - Significant Accounting Policies

Governmental fund types account for Twin Buttes School District No. 37's federal grant activity. Expenditures on the schedule of federal expenditures of federal awards are recognized on the same basis of accounting as the governmental fund types. Twin Buttes School District No. 37's summary of significant accounting policies is presented in Note 1 in Twin Buttes School District No. 37's basic financial statements.

Federal reimbursements and interest income are recognized when received and federal expenditures are recognized when paid. For certain programs shown on the schedule of expenditures of federal awards federal reimbursements are not based upon specific expenditures, the amounts reported here represent cash received rather than federal expenditures.

The School District does not draw for indirect administrative expenses and has not elected to use the 10% de minimis cost rate.

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weaknesses identified	No
Significant deficiency identified not considered to be material weaknesses	Yes
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	Yes

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA number</u>
Indian School Equalization Program	15.042
Indian Education Facilities, Operations and Maintenance	15.047
Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

2017-A Preparation of Financial Statements
Material Weakness

Criteria: Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

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

Cause: The School District does not have staff trained in GASB reporting requirements.

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

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

View of Responsible Officials: Management agrees with the finding. Due to the small size of our District, it is not cost effective for the District to properly address this deficiency.

2017-B Recording of Transactions
Material Weakness

Criteria: A good system of internal accounting control contemplates proper reconcilements of all general ledger accounts and adjustments of those accounts to the reconciled balances.

Condition: We identified misstatements in the School District's financial statements causing us to propose audit adjustments.

Cause: Misstatements to the financial statements could result from inadequate controls over recording of transactions.

Effect: Inadequate internal controls over recording of transactions affect the School District's ability to detect misstatements to the financial statements.

Recommendation: While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District.

View of Responsible Officials: Management agrees with the finding. The Business Manager plans to change procedures in the future so that the financial statements will not require adjustment by the auditors.

2017-C Segregation of Duties
Material Weakness

Criteria: A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition: The School District has a lack of segregation of duties in certain areas due to a limited staff.

Cause: The School District has limited staff and resources available to be able to properly segregate all duties.

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

Recommendation: While we recognize that your office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the School District.

View of Responsible Officials: Management agrees with the finding. Due to the small size of our District and the limited staff, the District continues to segregate duties when and where possible to ensure accountability.

Section III – Federal Award Findings and Questioned Costs

**2017-001 U.S. Department of Interior, Passed through Bureau of Indian Affairs
CFDA #15.047, 2017 Award Year
Indian Education Facilities, Operations and Maintenance**

**Equipment and Real Property Management – Lack of Adequate Equipment Records
Significant Deficiency in Internal Control over Compliance**

Criteria: The School District is required to maintain equipment records for all equipment purchased by the program, to which a physical inventory must be reconciled at least every two years.

Condition: The School District does not maintain adequate equipment records by which to reconcile the physical inventory over equipment purchased by the program at least every two years.

Cause: The School District did not have adequate controls to ensure the physical inventory is being reconciled to a listing of equipment purchased by the program.

Effect: The lack of inventory records and reconciliation results in a lack of certainty regarding disposals, of which a portion of the proceeds may be owed to the Federal agency administering the program.

Questioned Costs: None required to report.

Repeat Finding from Prior Year: Yes, prior year finding 2016-001

Recommendation: We recommend the School District implement internal control procedures to ensure appropriate records are being kept and reconciled to the physical inventory count and in the case of any disposals that the appropriate amount of proceeds be remitted to the Federal agency administering the program.

View of Responsible Officials: Management agrees with the finding.

**2017-002 U.S. Department of Interior, Passed through Bureau of Indian Affairs
CFDA #15.042, 2017 Award Year
Indian School Equalization Program and Indian Education Facilities, Operations and
Maintenance**

**Allowable Costs and Activities – Approval of Expenditures
Significant Deficiency in Internal Control over Compliance**

Criteria: The School District's control procedures require a requisition form and purchase order to be approved prior to purchasing products/services.

Condition: Six of sixty program expenditures tested for the program did not have proper approval or were approved for amounts that did not match the actual expenditures that were later incurred.

Cause: The School District's designed control procedures are not being followed by all parties making purchases.

Effect: This could lead to unauthorized purchases and improper use of program funds.

Questioned Costs: None required to report.

Repeat Finding from Prior Year: Yes, prior year finding 2016-003

Recommendation: We recommend the School District enforce internal control procedures to prevent the purchase of products/services that do not have proper authorization.

View of Responsible Officials: Management agrees with the finding.