

WARWICK PUBLIC SCHOOL DISTRICT NO. 29  
Warwick, North Dakota

AUDIT REPORT  
For the Year Ended June 30, 2017

**L**ERVIK  
&  
**J**OHNSON  

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*Certified Public Accountants*

WARWICK PUBLIC SCHOOL DISTRICT  
Warwick, North Dakota

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For the Year Ended June 30, 2017

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WARWICK PUBLIC SCHOOL DISTRICT NO. 29  
Warwick, North Dakota

SCHOOL OFFICIALS  
June 30, 2017

<u>Official</u>	<u>Position</u>
Larry Thiele	Board President
Heather Lawrence	Board Vice-president
Shane Moxness	Board Member
Jean Wallace	Board Member
Mary Langley	Board Member
Dean Dauphinais	Superintendent
Theresa Knutson	Business Manager

# LERVIK & JOHNSON

## Certified Public Accountants

### INDEPENDENT AUDITOR'S REPORT

Governing Board  
Warwick Public School District No. 29  
Warwick, North Dakota

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Warwick Public School District No. 29, Warwick, North Dakota, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activity and the major fund of Warwick Public School District No. 29, Warwick, North Dakota, as of June 30, 2017 and the respective changes in financial position in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

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

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

*Other information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Warwick Public School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financials statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2018, on our consideration of Warwick Public School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Warwick Public School District's internal control over financial reporting and compliance.



LERVIK & JOHNSON  
Certified Public Accountants  
Bottineau, North Dakota

January 16, 2018

WARWICK PUBLIC SCHOOL DISTRICT NO. 29  
Warwick, North Dakota

STATEMENT OF NET POSITION  
June 30, 2017

ASSETS:

Current Assets:

Cash and Cash Equivalents	\$ 1,381,800.65
Taxes Receivable	19,246.32
Due from Local Sources	2,931.05
Due from State Government	43,351.03
Due from Federal Government	391,247.43

Total Current Assets 1,838,576.48

Noncurrent Assets:

Capital Assets (Net of Accumulated Depreciation)	<u>3,033,754.76</u>
--------------------------------------------------	---------------------

Total Assets 4,872,331.24

Deferred Outflows of Resources:

Deferred Outflows Relating to Pension	<u>1,262,294.64</u>
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LIABILITIES:

Current Liabilities:

Accounts Payable	26,694.17
Salaries and Benefits Payable	209,302.70
Payroll Taxes Payable	31,894.28
Current Portion of Long-Term Debt	41,374.71

Total Current Liabilities 309,265.86

Noncurrent Liabilities:

Long-Term Debt, Net of Current Portion	406,794.73
Compensated Absences	64,634.54
Net Pension Liabilities	4,266,013.00

Total Noncurrent Liabilities 4,737,442.27

Total Liabilities 5,046,708.13

Deferred Inflows of Resources:

Deferred Inflows Relating to Pension	<u>317,103.00</u>
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NET POSITION:

Net Investment in Capital Assets	2,585,585.32
Unrestricted	<u>(1,814,770.57)</u>

Total Net Position \$ 770,814.75

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

WARWICK PUBLIC SCHOOL DISTRICT NO. 29  
Warwick, North Dakota

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2017

	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Position
		Charges for Services	Operating Grants and Contributions	
<b>GOVERNMENTAL ACTIVITIES:</b>				
Regular Programs	\$ 2,281,431.19	\$ -	\$ 86,354.00	\$ (2,195,077.19)
Special Education	315,178.52	28,948.20	413,096.46	126,866.14
Federal Programs	694,693.33	-	-	(694,693.33)
Administration	394,170.55	-	-	(394,170.55)
Food Service	241,840.54	506.51	198,892.41	(42,441.62)
Operations and Maintenance	380,657.56	-	-	(380,657.56)
Transportation	292,271.84	-	-	(292,271.84)
Extracurricular Activities	113,070.74	26,806.74	14,232.10	(72,031.90)
Other Programs & Services	126,511.43	-	102,452.75	(24,058.68)
Interest	11,944.44	-	-	(11,944.44)
<b>Total Governmental Activities</b>	<b>\$ 4,851,770.14</b>	<b>\$ 56,261.45</b>	<b>\$ 815,027.72</b>	<b>\$ (3,980,480.97)</b>

General Revenues:

Property Taxes, levied for general purposes	179,474.48
Federal aid-not restricted to specific programs	1,709,634.39
State aid-not restricted to specific programs	2,146,982.37
Earnings on investments and miscellaneous revenue	7,316.38
<b>Total General Revenues</b>	<b>4,043,407.62</b>
<b>Change in Net Position</b>	<b>62,926.65</b>
Net Position - July 1, as Previously Reported	945,268.93
Prior Period Adjustment (Note 14)	(237,380.83)
<b>Net Position - July 1, as Restated</b>	<b>707,888.10</b>
<b>Net Position - June 30</b>	<b>\$ 770,814.75</b>

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



WARWICK PUBLIC SCHOOL DISTRICT NO. 29  
Warwick, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2017

	General	Special Revenue	Total Governmental Funds
<b><u>ASSETS:</u></b>			
Current Assets:			
Cash and Cash Equivalents	\$ 1,227,167.74	\$ 154,632.91	\$ 1,381,800.65
Taxes Receivable	19,246.32	-	19,246.32
Due from Local Sources	2,931.05	-	2,931.05
Due from State Government	43,351.03	-	43,351.03
Due from Federal Government	387,607.44	3,639.99	391,247.43
Total Assets	\$ 1,680,303.58	\$ 158,272.90	\$ 1,838,576.48
 <b><u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:</u></b>			
Current Liabilities:			
Accounts Payable	\$ 26,169.94	\$ 524.23	\$ 26,694.17
Salaries and Benefits Payable	209,302.70	-	209,302.70
Payroll Taxes Payable	31,894.28	-	31,894.28
Total Current Liabilities	267,366.92	524.23	267,891.15
Deferred Inflows of Resources:			
Property Taxes Uncollected	19,246.32	-	19,246.32
Fund Balances:			
Committed	-	157,748.67	157,748.67
Unassigned	1,393,690.34	-	1,393,690.34
Total Fund Balances	1,393,690.34	157,748.67	1,551,439.01
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,680,303.58	\$ 158,272.90	\$ 1,838,576.48

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

WARWICK PUBLIC SCHOOL DISTRICT NO. 29  
Warwick, North Dakota

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

Total Fund Balances for Governmental Funds \$ 1,551,439.01

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

Capital assets used in governmental  
activities are not current financial resources  
and are not reported in the governmental funds.

Cost of Capital Assets	5,047,772.40	
Less Accumulated Depreciation	<u>(2,014,017.64)</u>	
Net Capital Assets		3,033,754.76

Property taxes will be collected after  
year-end, but are not available soon  
enough to pay for the current period's  
expenditures and therefore are reported  
as deferred inflows of resources in the  
governmental funds. 19,246.32

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

Balances at June 30, 2017 are:

Note Payable	(448,169.44)	
Compensated Absences	(64,634.54)	
Net Pension Liability	<u>(4,266,013.00)</u>	
Net Amount		(4,778,816.98)

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

Deferred Outflows of Resources Related to Pensions	1,262,294.64	
Deferred Inflows of Resources Related to Pensions	<u>(317,103.00)</u>	

Total Net Position of Governmental Activities \$ 770,814.75

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

WARWICK PUBLIC SCHOOL DISTRICT NO. 29  
Warwick, North Dakota

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

	General	Special Revenue	Total Governmental Funds
<u>Revenues:</u>			
Local Sources	\$ 207,142.68	\$ 506.51	\$ 207,649.19
State Sources	2,228,910.58	1,481.86	2,230,392.44
Federal Sources	2,269,539.69	197,410.55	2,466,950.24
Other Sources	3,884.60	-	3,884.60
<b>Total Revenues</b>	<b>4,709,477.55</b>	<b>199,398.92</b>	<b>4,908,876.47</b>
<u>Expenditures:</u>			
Current:			
Regular Programs	1,992,815.98	-	1,992,815.98
Special Education	315,178.52	-	315,178.52
Federal Programs	694,693.33	-	694,693.33
Administration	393,770.55	-	393,770.55
Food Service	71,493.34	166,819.70	238,313.04
Operations and Maintenance	380,657.56	-	380,657.56
Transportation	289,522.74	-	289,522.74
Extracurricular Activities	91,922.04	-	91,922.04
Other Programs & Services	126,511.43	-	126,511.43
Capital Outlay	626,656.40	-	626,656.40
Debt Service:			
Principal	51,830.56	-	51,830.56
Interest	11,944.44	-	11,944.44
<b>Total Expenditures</b>	<b>5,046,996.89</b>	<b>166,819.70</b>	<b>5,213,816.59</b>
<b>Net Change in Fund Balances</b>	<b>(337,519.34)</b>	<b>32,579.22</b>	<b>(304,940.12)</b>
Fund Balance - July 1, As Previously Reported	1,911,021.48	125,169.45	2,036,190.93
Prior Period Adjustment (Note 14)	(179,811.80)	-	(179,811.80)
<b>Fund Balance - July 1, As Restated</b>	<b>1,731,209.68</b>	<b>125,169.45</b>	<b>1,856,379.13</b>
<b>Fund Balance - June 30</b>	<b>\$ 1,393,690.34</b>	<b>\$ 157,748.67</b>	<b>\$ 1,551,439.01</b>

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

WARWICK PUBLIC SCHOOL DISTRICT NO. 29  
Warwick, North Dakota

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

Net Change in Fund Balances-Total Governmental Funds \$ (304,940.12)

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

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

Current Year Capital Outlay	626,656.40	
Current Year Depreciation Expense	<u>(122,536.64)</u>	
Net Amount		504,119.76

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

Principal Payments of Notes Payable	51,830.56
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Some revenues reported in the Statement of Activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of the increase in taxes receivable. 5,820.32

Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net Increase in Compensated Absences	(7,065.51)
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Governmental funds report district pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employer contribution is reported as pension expense. (186,838.36)

Change in Net Position of Governmental Activities	<u>\$ 62,926.65</u>
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The accompanying notes are an integral part of these financial statements.

WARWICK PUBLIC SCHOOL DISTRICT NO. 29  
Warwick, North Dakota

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

ASSETS:

Current Assets:

Cash \$ 37,119.12

Total Assets 37,119.12

LIABILITIES:

Current Liabilities:

Due to Student Activities Groups 37,119.12

Total Liabilities 37,119.12

NET POSITION:

Unrestricted \$ -

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

WARWICK PUBLIC SCHOOL DISTRICT NO. 29  
Warwick, North Dakota

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

The accompanying financial statements present the activities of the Warwick Public School District No. 29. The school district has considered all potential component units for which the school district is financially accountable and other organizations for which the nature and significance of their relationships with the school district are such that exclusion would cause the school district's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body or an organization being fiscally dependent and (1) the ability of the Warwick Public School District No. 29 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, Warwick Public School District No. 29.

Based on these criteria, there are no component units to be included within the Warwick Public School District No. 29 as a reporting entity.

B. Financial Statement Presentation

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

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

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

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

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

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

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

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

The school district reports the following major governmental funds:

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

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

The school district does not have any nonmajor governmental funds.

The school district reports the following fiduciary fund type:

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

### C. Measurement Focus and Basis of Accounting

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

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

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

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

#### ***Government-wide Financial Statements***

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

#### ***Governmental Fund Financial Statements***

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



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

#### D. Budgets

Based upon available financial information and requests by the school board, the superintendent and business manager prepare the school district budget. The budget is prepared for the general fund on the modified accrual basis of accounting. The budget includes the proposed expenditures and the means of financing them. The school district does not prepare a budget for the special revenue or capital projects funds, as state law does not require a budget for those funds. Since budgets were not prepared, the statements comparing budget and actual results could not be prepared. All annual appropriations lapse at year-end.

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

#### E. Cash, Cash Equivalents and Investments

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

State statutes authorize the school district to invest in:

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

F. Interfund Transactions

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

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

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

G. Capital Assets

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

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

Buildings & Improvements	50 years
Equipment	10 years
Vehicles	10 years

H. Noncurrent Obligations

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

Long-Term Debt

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

### **Compensated Absences**

Compensated absences consist of annual leave. It can accrue up to 90 days and is compensated at termination of employment at \$35 per day for those with under five years of employment with the school district and \$60 per day for those employed by the school district for five or more years. The liability for the portion of compensated absences related to annual leave is reported in the government-wide Statement of Net Position.

### **Pensions**

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

### **I. Fund Equity**

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

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

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

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

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

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

#### J. Use of Estimates

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

#### NOTE 2: CASH AND CASH EQUIVALENTS

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

##### *Custodial and Concentration of credit risk:*

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

##### *Interest rate risk:*

In accordance with its investment policy, the school district invests its operating funds primarily in short term certificates of deposit and limits the average maturity in accordance with the school district's cash requirements and to manage exposure to fair value losses arising from interest rate changes.

#### NOTE 3: TAXES RECEIVABLE

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

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

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

NOTE 4: DUE FROM LOCAL SOURCES

The amount due from local sources consists of the cash on hand for taxes collected but not remitted to the school district at June 30.

NOTE 5: DUE FROM STATE GOVERNMENT

The amount due from state government consists of the final reimbursement claims for vocational education and Lake Region Special Education, as well as money awarded for a preschool grant.

NOTE 6: DUE FROM FEDERAL GOVERNMENT

The amount due from federal government consists of the final reimbursement claims for Title I, Title II Part A, Title VI, Title VII, Carl Perkins, and the 21<sup>st</sup> Century Community Learning Centers for the general fund. The amount due from the federal government in the special revenue fund stems from the summer food program.

NOTE 7: CAPITAL ASSETS

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

	Balance 7/1/2016	Increases	Deletions	Balance 6/30/2017
Governmental Activities:				
Capital Assets Being Depreciated:				
Buildings	\$ 3,954,929.00	\$ 626,656.40	\$ -	\$ 4,581,585.40
Equipment	415,696.00	-	-	415,696.00
Vehicles	50,491.00	-	-	50,491.00
Total Capital Assets	4,421,116.00	626,656.40	-	5,047,772.40
Less Accumulated Depreciation For:				
Buildings	1,594,587.00	79,268.14	-	1,673,855.14
Equipment	251,427.00	40,519.40	-	291,946.40
Vehicles	45,467.00	2,749.10	-	48,216.10
Total Accumulated Depreciation	1,891,481.00	122,536.64	-	2,014,017.64
Total Capital Assets, Net	\$ 2,529,635.00	\$ 504,119.76	\$ -	\$ 3,033,754.76

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

Governmental Activities:	
Regular Programs	\$ 94,711.34
Administration	400.00
Food Service	3,527.50
Transportation	2,749.10
Extracurricular Activities	21,148.70
Total Depreciation-	
Governmental Activities	<u>\$ 122,536.64</u>

NOTE 8: CURRENT LIABILITIES

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

Salaries and benefits payable, along with the related payroll taxes payable, stem from salaries, benefits and payroll taxes which were earned and/or withheld during the fiscal year ended June 30, 2017, but were not yet paid out by that date.

NOTE 9: DEFERRED INFLOWS OF AND OUTFLOWS RESOURCES

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

Deferred inflows and outflows on the school district's statement of net position are related to the determination of the school district's net pension liability and pension expense, as detailed in Note 12.

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

NOTE 10: NONCURRENT LIABILITIES

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

	Balance 7/1/2016	Increases	Deletions	Balance 6/30/2017
Note Payable	\$ 500,000.00	\$ -	\$ 51,830.56	\$ 448,169.44
Compensated Absences	57,569.03	7,065.51	-	64,634.54
	<u>\$ 557,569.03</u>	<u>\$ 7,065.51</u>	<u>\$ 51,830.56</u>	<u>\$ 512,803.98</u>

The note payable is a commercial promissory note to Western State Bank dated May 17, 2016. The note's proceeds were for a boiler replacement. The original principal amount was \$500,000.00, and the maturity date is November 5, 2020. The note's payments require four annual payments of \$63,775.00 (including interest at 5.0% per annum) beginning on November 5, 2016, and a final balloon payment of \$333,450.65 on November 5, 2020. On an annual basis, the school district issues a certificate of indebtedness promising to pay Western State Bank the full sum of each issued certificate as collateral.

The annual requirements to amortize the long-term debt are as follows:

Year Ending June 30	Principal	Interest	Total
2018	\$ 41,374.71	\$ 22,400.29	\$ 63,775.00
2019	43,443.44	20,331.56	63,775.00
2020	45,615.62	18,159.38	63,775.00
2021	317,735.67	15,878.60	333,614.27
Totals	\$ 448,169.44	\$ 76,769.83	\$ 524,939.27

The school district is in compliance with all bond and debt covenants.

**NOTE 11: FUND BALANCE**

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

	General	Special Revenue	Total
Fund Balances:			
Committed:			
Food Service	\$ -	\$ 157,748.67	\$ 157,748.67
Unassigned	1,393,690.34	-	1,393,690.34
	\$ 1,393,690.34	\$ 157,748.67	\$ 1,551,439.01

**NOTE 12: PENSION PLANS**

The school district has two employee pension plans, the North Dakota Teachers' Fund for Retirement (TFFR) and the North Dakota Public Employees Retirement System (NDPERS).

**North Dakota Teachers' 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 complete information.

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

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

#### *Pension Benefits*

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

#### *Tier 1 Grandfathered*

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

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

#### *Tier 1 Non-grandfathered*

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



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

#### *Tier 2*

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

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

#### *Death and Disability Benefits*

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

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

#### *Member and Employer Contributions*

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

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

North Dakota Public Employees Retirement System (Main 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. Effective July 1, 2015, the Board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

***Pension Benefits***

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member 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). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly 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.

***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.

***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.

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 24 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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (All Plans)

At June 30, 2017, the school district reported a total liability of \$4,266,013.00 (\$3,883,123.00 for its proportionate share of TFFR's net pension liability and \$382,890.00 for its proportionate share of NDPERS' net pension liability). The net pension liabilities for both plans were measured as of July 1, 2016, and the total pension liability used to calculate the net pension liability for each plan was determined by an actuarial valuation as of that date.

For TFFR, the school district's proportion of the net pension liability was based on the school district's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2016, the school district's proportion related to TFFR was 0.265049 percent, which was a decrease of 0.024453 percent from its proportion measured as of July 1, 2015.

Related to NDPERS, the school district's proportion of the net pension liability was based on the school district's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating NDPERS Main System employers. At July 1, 2016, the school district's proportion related to NDPERS was 0.039287 percent, which was an increase of 0.007285 percent from its proportion measured as of July 1, 2015.

For the year ended June 30, 2017 the school district recognized total pension expense of \$418,296.00, (\$366,008.00 related to TFFR and \$52,288.00 related to NDPERS). At June 30, 2017 the school district reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	TFFR		NDPERS		TOTAL	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 18,340.00	\$ 18,386.00	\$ 5,752.00	\$ 3,545.00	\$ 24,092.00	\$ 21,931.00
Changes of assumption	324,353.00	-	35,298.00	19,022.00	359,651.00	19,022.00
Net difference between projected and actual earnings on pension plan investments	322,793.00	-	53,419.00	-	376,212.00	-
Changes in proportion and differences between district contributions and proportionate share of contributions	223,997.00	244,638.00	45,596.00	31,512.00	269,593.00	276,150.00
District contributions subsequent to the measurement date	199,513.06	-	33,233.58	-	232,746.64	-
Total	\$ 1,088,996.06	\$ 263,024.00	\$ 173,298.58	\$ 54,079.00	\$ 1,262,294.64	\$ 317,103.00

\$232,746.64 (\$199,513.06 from TFFR and \$33,233.58 from NDPERS) reported as deferred outflows of resources related to pensions resulting from the school district's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

Year Ended June 30:	TFFR	NDPERS	TOTAL
2017	\$ 123,815.00	\$ 14,426.00	\$ 138,241.00
2018	123,815.00	14,426.00	138,241.00
2019	202,690.00	26,079.00	228,769.00
2020	153,306.00	17,408.00	170,714.00
2021	66,671.00	13,647.00	80,318.00
Thereafter	(43,837.00)	-	(43,837.00)

**Actuarial assumptions:**

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

	TFFR	NDPERS
Inflation	2.75%	3.50%
Salary Increases	4.25% to 14.50%, varying by service, including inflation and productivity	4.50% per annum
Investment rate of return	7.75%, net of investment expenses	8.00%, net of investment expenses
Cost-of-living adjustments	None	None

**TFFR specific actuarial assumptions:**

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

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

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

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

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

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

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

***NDPERS specific actuarial assumptions:***

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 Retiree Mortality Table set back one year for males (no setback 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, 2016 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Fixed Income	5%	0.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

*Discount rate.* The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2016 Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

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

The following presents the school district's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent for TFFR and 8 percent for NDPERS, as well as what the school district's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	District's Proportionate Share of Net Pension Liability		
	1% Decrease	Current Discount Rate	1% Increase
TFFR	\$ 5,036,703.00	\$ 3,883,123.00	\$ 2,922,301.00
NDPERS	543,122.00	382,890.00	247,886.00
Combined	\$ 5,579,825.00	\$ 4,266,013.00	\$ 3,170,187.00

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

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

NOTE 13: RISK MANAGEMENT

The Warwick Public School District No. 29 is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The Warwick Public School District No. 29 pays an annual premium to NDIRF for its general liability and automobile insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and one million dollars per accident for automobile.



The Warwick Public School District No. 29 also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The Warwick Public School District No. 29 pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the political subdivision with blanket fidelity bond coverage in the amount of \$1,200,000.00 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The Warwick Public School District No. 29 has insurance with North Dakota Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

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

**Note 14: PRIOR PERIOD ADJUSTMENTS**

The beginning general fund balance and beginning net position were restated due to the correction of certain items that were omitted from the prior year audited financial statements. The adjustments were related to correcting beginning balances related the following liabilities:

	<u>Reductions to July 1, 2016</u>	
	<u>General Fund</u>	<u>Net</u>
	<u>Balance</u>	<u>Position</u>
Accounts Payable	96,011.44	96,011.44
Salaries and Benefits Payable	78,577.36	78,577.36
Payroll Taxes Payable	5,223.00	5,223.00
Compensated Absences	-	57,569.03
	<u>179,811.80</u>	<u>237,380.83</u>

**NOTE 15: SUBSEQUENT EVENTS**

The school district has evaluated subsequent events through January 16, 2018, the date which the financial statements were available to be issued.

WARWICK PUBLIC SCHOOL DISTRICT NO. 29  
Warwick, North Dakota

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

	Original Budget	Actual	Variance Positive (Negative)
<u>Revenues:</u>			
Local Sources	\$ 841,200.00	\$ 207,142.68	\$ (634,057.32)
State Sources	2,144,500.00	2,228,910.58	84,410.58
Federal Sources	1,862,000.00	2,269,539.69	407,539.69
Other Sources	-	3,884.60	3,884.60
<b>Total Revenues</b>	<b>4,847,700.00</b>	<b>4,709,477.55</b>	<b>(138,222.45)</b>
<u>Expenditures:</u>			
Current:			
Regular Programs	1,997,000.00	1,992,815.98	4,184.02
Special Education	182,500.00	315,178.52	(132,678.52)
Federal Programs	793,500.00	694,693.33	98,806.67
Administration	360,000.00	393,770.55	(33,770.55)
Food Service	82,500.00	71,493.34	11,006.66
Operations and Maintenance	392,500.00	380,657.56	11,842.44
Transportation	320,500.00	289,522.74	30,977.26
Extracurricular Activities	63,000.00	91,922.04	(28,922.04)
Other Programs & Services	130,500.00	126,511.43	3,988.57
Capital Outlay	-	626,656.40	(626,656.40)
Debt Service:			-
Principal	51,830.56	51,830.56	-
Interest	11,944.44	11,944.44	-
<b>Total Expenditures</b>	<b>4,385,775.00</b>	<b>5,046,996.89</b>	<b>(661,221.89)</b>
<b>Net Change in Fund Balances</b>	<b>461,925.00</b>	<b>(337,519.34)</b>	<b>(799,444.34)</b>
Fund Balance - July 1, As			
Previously Reported	1,911,021.48	1,911,021.48	-
Prior Period Adjustment	(179,811.80)	(179,811.80)	-
<b>Fund Balance - July 1, As Restated</b>	<b>1,731,209.68</b>	<b>1,731,209.68</b>	<b>-</b>
<b>Fund Balance - June 30</b>	<b>\$ 2,193,134.68</b>	<b>\$ 1,393,690.34</b>	<b>\$ (799,444.34)</b>

See accompanying notes to required supplementary information.

WARWICK PUBLIC SCHOOL DISTRICT NO. 29  
Warwick, North Dakota

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

	As of and for the Year Ended June 30,		
	2017	2016	2015
<b>ND Teachers' Fund for Retirement:</b>			
1. District's proportion of the net pension liability (asset)	0.265049%	0.289502%	0.262441%
2. District's proportionate share of the net pension liability (asset)	\$3,883,123.00	\$3,786,267.00	\$2,749,916.00
3. District's covered-employee payroll	\$1,722,089.00	\$1,780,738.00	\$1,522,299.00
4. District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	225.49%	212.62%	180.64%
5. Plan fiduciary net position as a percentage of the total pension liability	59.20%	62.10%	66.60%
<b>ND Public Employees Retirement System:</b>			
1. District's proportion of the net pension liability (asset)	0.039287%	0.032002%	0.039320%
2. District's proportionate share of the net pension liability (asset)	\$382,890.00	\$217,608.00	\$249,572.00
3. District's covered-employee payroll	\$395,922.00	\$285,101.00	\$331,226.00
4. District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	96.71%	76.33%	75.35%
5. Plan fiduciary net position as a percentage of the total pension liability	70.46%	77.15%	77.70%

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

See accompanying notes to required supplementary information.

WARWICK PUBLIC SCHOOL DISTRICT NO. 29  
Warwick, North Dakota

SCHEDULE OF DISTRICT'S CONTRIBUTIONS  
LAST 10 FISCAL YEARS\*

	As of and for the Year		
	Ended June 30,		
	2017	2016	2015
<u>ND Teachers' Fund for Retirement:</u>			
Statutorily required contribution	\$219,566.00	\$227,034.00	\$163,645.00
Contributions in relation to the statutorily required contribution	(\$219,566.00)	(\$227,034.00)	(\$163,645.00)
Contribution deficiency (excess)	\$0.00	\$0.00	\$0.00
District's covered-employee payroll	\$1,722,089.00	\$1,780,738.00	\$1,522,299.00
Contributions as a percentage of covered-employee payroll	12.75%	12.75%	10.75%

	As of and for the Year		
	Ended June 30,		
	2017	2016	2015
<u>ND Public Employees Retirement System:</u>			
Statutorily required contribution	\$28,664.00	\$21,656.00	\$23,583.00
Contributions in relation to the statutorily required contribution	(\$30,091.00)	(\$28,317.00)	(\$23,583.00)
Contribution deficiency (excess)	-\$1,427.00	-\$6,661.00	\$0.00
District's covered-employee payroll	\$395,922.00	\$285,101.00	\$331,226.00
Contributions as a percentage of covered-employee payroll	7.60%	9.93%	7.12%

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

See accompanying notes to required supplementary information.

WARWICK PUBLIC SCHOOL DISTRICT NO. 29  
Warwick, North Dakota

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

NOTE 1: BUDGETARY COMPARISON SCHEDULE

***Basis of Accounting:***

Based upon available financial information and requests by the school board, the business manager prepares the school district budget. The budget is prepared for the general fund on the modified accrual basis of accounting. The budget includes the proposed expenditures and the means of financing them. The school district does not prepare a budget for the special revenue fund, as state law does not require a budget for it. Since a budget was not prepared, the statement comparing budget and actual results could not be prepared. All annual appropriations lapse at year-end.

***Relevant Dates:***

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

NOTE 2: EXCESS OF ACTUAL EXPENDITURES OVER BUDGET

Expenditures exceeded budget by \$661,221.89 in the general fund for the year ended June 30, 2017. No remedial action is anticipated or required by the school district regarding these excess expenditures.

NOTE 3: PENSION PLANS

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

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

***NDPERS Changes of Assumptions.*** Amounts related to NDPERS reported in 2016 and later 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.

WARWICK PUBLIC SCHOOL DISTRICT NO. 29  
Warwick, North Dakota

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

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education:			
Direct Programs:			
Impact Aid	84.041B	N/A	\$ 1,646,697.39
Indian Education-Grants to Local Educational Agencies	84.060	N/A	<u>62,937.00</u>
Total Direct Programs			<u>1,709,634.39</u>
Pass-through programs from:			
State Department of Public Instruction:			
Title I Grants to Local Educational Agencies	84.010	F84010	453,096.46
Title IIA Improving Teacher Quality	84.367A	F84367	<u>46,354.00</u>
Total Pass-through from State Department of Public Instruction			499,450.46
North Central Education Cooperative:			
21st Century Community Learning Centers	84.287	None	43,053.01
Lake Area Career & Technology Center			
Career and Technical Education-Basic Grants to States	84.048	None	<u>6,419.73</u>
Total Pass-Through Programs			<u>548,923.20</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>2,258,557.59</u>
U.S. Department of the Interior:			
Pass-through program from Spirit Lake Indian Tribe			
Indian Education Assistance to Schools- Johnson- O'Malley	15.130	None	<u>10,982.10</u>
TOTAL U.S. DEPARTMENT OF THE INTERIOR			<u>10,982.10</u>
U.S. Department of Agriculture:			
Pass-through program from State			
Department of Public Instruction:			
Child Nutrition Cluster:			
National School Lunch Program:			
Cash Assistance	10.555	F10555	114,874.94
Non-Cash Assistance (Commodities)	10.555	None	<u>13,170.30</u>
National School Lunch Program Subtotal			128,045.24
School Breakfast Program	10.553	F10553	55,859.28
Summer Food Service Program	10.559	F10559	<u>3,639.99</u>
TOTAL CHILD NUTRITION CLUSTER			187,544.51
Fresh Fruit and Vegetable Program	10.582	F10568	<u>9,866.04</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE (PASS-THROUGH PROGRAMS)			<u>197,410.55</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,466,950.24</u>

See accompanying notes to schedule of expenditures of federal awards.

WARWICK PUBLIC SCHOOL DISTRICT NO. 29  
Warwick, North Dakota

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

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Warwick Public School District No. 29, under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operations of the school district, it is not intended to and does not present the financial position or changes in net position of the school district.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

# LERVIK & JOHNSON

## Certified Public Accountants

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

Governing Board  
Warwick Public School District  
Warwick, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Warwick Public School District, Warwick, North Dakota, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Warwick Public School District, Warwick, North Dakota's basic financial statements and have issued our report thereon dated January 16, 2018.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Warwick Public School District, Warwick, North Dakota's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Warwick Public School District, Warwick, North Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of Warwick Public School District, Warwick, North Dakota's internal control.

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

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



## Compliance and Other Matters

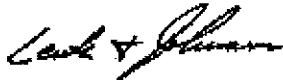
As part of obtaining reasonable assurance about whether Warwick Public School District, Warwick, North Dakota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with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

## Warwick Public School District, Warwick, North Dakota's Response to Findings

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

## Purpose of this Report

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



LERVIK & JOHNSON  
Certified Public Accountants

January 16, 2018

# LERVIK & JOHNSON

## Certified Public Accountants

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

Governing Board  
Warwick Public School District  
Warwick, North Dakota

#### Report on Compliance for Each Major Federal Program

We have audited Warwick Public School District, Warwick, North Dakota's compliance with the types of compliance requirements described in the OMB Circular Compliance Supplement that could have a direct and material effect on each of Warwick Public School District, Warwick, North Dakota's major federal programs for the year ended June 30, 2017. Warwick Public School District, Warwick, North Dakota's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### Management's Responsibility

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

#### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Warwick Public School District, Warwick, North Dakota's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Warwick Public School District, Warwick, North Dakota's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Warwick Public School District, Warwick, North Dakota's compliance.

## Opinion on Each Major Federal Program

In our opinion, Warwick Public School District, Warwick, North Dakota, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

## Report on Internal Control Over Compliance

Management of Warwick Public School District, Warwick, North Dakota, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Warwick Public School District, Warwick, North Dakota's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Warwick Public School District, Warwick, North Dakota's internal control over compliance.

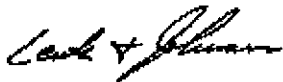
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider item 17-3 in the accompanying schedule of findings and questioned costs to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 17-1 and 17-2 to be significant deficiencies.

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

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



LERVIK & JOHNSON  
Certified Public Accountants

January 16, 2018

WARWICK PUBLIC SCHOOL DISTRICT NO. 29  
Warwick, North Dakota

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

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the general purpose financial statements of Warwick Public School District No. 29, Warwick, North Dakota.
2. Three deficiencies disclosed during the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. These deficiencies are reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of Warwick Public School District No. 29, Warwick, North Dakota were disclosed during the audit.
4. Two significant deficiencies and one material weakness in internal control over major programs are reported in the Independent Auditor's Report on Compliance Each Major Program and on Internal Control over Compliance required by the Uniform Guidance. The deficiencies are not reported as material weaknesses.
5. The auditor's report on compliance for the major federal award programs for Warwick Public School District No. 29, Warwick, North Dakota expresses an unmodified opinion on all major federal programs.
6. Any audit findings that are required to be reported in accordance with Uniform Guidance-2CFR 200.516(a) for Warwick Public School District No. 29, Warwick, North Dakota are reported in this schedule.
7. The program tested as major programs was Impact Aid (CFDA Number 84.041B).
8. The threshold for distinguishing Type A and B programs was \$750,000.00.
9. Warwick Public School District No. 29, Warwick, North Dakota was not determined to be a low-risk auditee.

FINDINGS-FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESS

17-1 Segregation of Duties

Condition:

Warwick Public School District No. 29, Warwick, North Dakota, has one business manager responsible for most accounting functions.

Criteria:

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

**Effect:**

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

**Recommendation:**

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

**Client Response:**

At the present time the Warwick Public School District No. 29 has segregated the accounting duties in the most effective manner possible, given its limited staff. Due to cost constraints, there will be no further administrative employees added.

17-2 Preparation of Financial Statements

**Condition:**

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

**Criteria:**

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

**Effect:**

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

**Recommendation:**

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

**Management's Response:**

Since it is not cost-effective for an organization our size to have staff to prepare audit-ready financial statements, we have chosen to hire Lervik and Johnson P.C., a public accounting firm, to assist in the preparation of the financial statements as part of their annual audit of Warwick Public School District No. 29, Warwick, North Dakota.

17-3 Cash Reconciliations

**Condition:**

The school district's general fund cash account was not reconciled to the bank statements regularly during the year ended June 30, 2017. It was noted that certain automatic payments occurring on the bank statement were not recorded in the school district's books.

**Criteria:**

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

**Effect:**

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

**Cause:**

The general fund cash account was not reconciled to the bank statement on a monthly basis.

**Recommendation:**

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

**Management's Response:**

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

**FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT**

**SIGNIFICANT DEFICIENCIES**

The deficiencies described above as Findings 17-1 and 17-2 are significant deficiencies, although not material weaknesses, in internal control over major federal programs.

**MATERIAL WEAKNESS**

The deficiency described above as Finding 17-3 is a material weakness in internal control over major federal programs.