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**BEULAH PUBLIC SCHOOL DISTRICT  
BEULAH, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

To the President and Board Members  
Beulah Public School District  
Beulah, North Dakota

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities and each major fund of the Beulah Public School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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



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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities and each major fund of the Beulah Public School District as of June 30, 2016, and the respective changes in modified cash basis financial position for the year then ended in accordance with the basis of accounting as described in Note 2.

## Emphasis of Matters

As discussed in Note 2, the District prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Notes 2 and 5 to the financial statements, Beulah Public School District adopted the provisions of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

## Other Matters

### *Correction of an Error*

As described in Note 18 to the financial statements, a prior period adjustment has been made to properly state the interfund receivables and payables, cash and fund balance in the general fund and building fund.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund – Modified Cash Basis is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund – Modified Cash Basis is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund – Modified Cash Basis 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 March 12, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Beulah Public School District's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
Bismarck, North Dakota

March 12, 2017

**BEULAH PUBLIC SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**JUNE 30, 2016**

**ASSETS**

|                                                  |                  |
|--------------------------------------------------|------------------|
| Current assets                                   |                  |
| Cash and cash equivalents                        | \$ 2,364,846     |
| Investments                                      | 1,320,223        |
| Total current assets                             | <u>3,685,069</u> |
| Non-current assets                               |                  |
| Capital assets (net of accumulated depreciation) | <u>4,799,862</u> |
| Total assets                                     | <u>8,484,931</u> |

**LIABILITIES**

|                      |               |
|----------------------|---------------|
| Current liabilities  |               |
| Payroll withholdings | <u>13,558</u> |
| Total liabilities    | <u>13,558</u> |

**NET POSITION**

|                                  |                     |
|----------------------------------|---------------------|
| Net investment in capital assets | 4,799,862           |
| Restricted for:                  |                     |
| Capital projects                 | 97,709              |
| Hot lunch                        | 66,436              |
| Unrestricted                     | <u>3,507,366</u>    |
| Total net position               | <u>\$ 8,471,373</u> |

See Notes to the Financial Statements

**BEULAH PUBLIC SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

| Functions/Programs                                     | Expenses         | Program Revenues     |                                    | Net (Expense) Revenues and Changes in Net Position |
|--------------------------------------------------------|------------------|----------------------|------------------------------------|----------------------------------------------------|
|                                                        |                  | Charges for Services | Operating Grants and Contributions |                                                    |
| <b>Governmental activities</b>                         |                  |                      |                                    | <b>Total</b>                                       |
| Instruction:                                           |                  |                      |                                    |                                                    |
| Regular instruction                                    | \$ 4,168,577     | \$ -                 | \$ 221,854                         | \$ (3,946,723)                                     |
| Special instruction                                    | 95,452           | -                    | -                                  | (95,452)                                           |
| Vocational instruction                                 | 393,272          | -                    | 11,873                             | (381,399)                                          |
| Total instruction                                      | <u>4,657,301</u> | <u>-</u>             | <u>233,727</u>                     | <u>(4,423,574)</u>                                 |
| Support services:                                      |                  |                      |                                    |                                                    |
| Operations and maintenance                             | 827,430          | -                    | -                                  | (827,430)                                          |
| Student transportation                                 | 621,541          | -                    | 235,990                            | (385,551)                                          |
| General administration services                        | 745,323          | -                    | -                                  | (745,323)                                          |
| School administration services                         | 363,965          | -                    | -                                  | (363,965)                                          |
| Food service                                           | 433,465          | 308,720              | 138,210                            | 13,465                                             |
| Student activities                                     | 386,363          | -                    | -                                  | (386,363)                                          |
| Business office                                        | 124,035          | -                    | -                                  | (124,035)                                          |
| School library services                                | 107,280          | -                    | -                                  | (107,280)                                          |
| Interest on notes payable                              | 15,257           | -                    | -                                  | (15,257)                                           |
| Other support services                                 | 334,063          | -                    | -                                  | (334,063)                                          |
| Total support services                                 | <u>3,958,722</u> | <u>308,720</u>       | <u>374,200</u>                     | <u>(3,275,802)</u>                                 |
| Total governmental activities                          | <u>8,616,023</u> | <u>308,720</u>       | <u>607,927</u>                     | <u>(7,699,376)</u>                                 |
| General revenues:                                      |                  |                      |                                    |                                                    |
| Taxes:                                                 |                  |                      |                                    |                                                    |
| Property taxes levied for general purpose              |                  |                      |                                    | 1,490,343                                          |
| Property taxes levied for building                     |                  |                      |                                    | 409,826                                            |
| State aid:                                             |                  |                      |                                    |                                                    |
| Per pupil aid                                          |                  |                      |                                    | 4,227,666                                          |
| Other state aid                                        |                  |                      |                                    | 142,599                                            |
| Other revenues:                                        |                  |                      |                                    |                                                    |
| County impact aid                                      |                  |                      |                                    | 1,061,357                                          |
| Federal impact aid                                     |                  |                      |                                    | 959                                                |
| Unrealized gain (loss) on investments                  |                  |                      |                                    | 8,388                                              |
| Interest and miscellaneous                             |                  |                      |                                    | 29,144                                             |
| Total general revenues                                 |                  |                      |                                    | <u>7,370,282</u>                                   |
| Change in net position                                 |                  |                      |                                    | <u>(329,094)</u>                                   |
| Net position - beginning of year, as originally stated |                  |                      |                                    | 8,617,714                                          |
| Prior period adjustment                                |                  |                      |                                    | 182,753                                            |
| Net position - beginning of year, restated             |                  |                      |                                    | <u>8,800,467</u>                                   |
| Net position - ending                                  |                  |                      |                                    | <u>\$ 8,471,373</u>                                |

See Notes to the Financial Statements

**BEULAH PUBLIC SCHOOL DISTRICT**  
**BALANCE SHEET – GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**JUNE 30, 2016**

|                                     | General Fund        | Building Fund     | Hot Lunch Fund   | Total<br>Governmental<br>Funds |
|-------------------------------------|---------------------|-------------------|------------------|--------------------------------|
| <b>ASSETS</b>                       |                     |                   |                  |                                |
| Cash and cash equivalents           | \$ 1,434,077        | \$ 864,222        | \$ 66,547        | \$ 2,364,846                   |
| Investments                         | 1,320,223           | -                 | -                | 1,320,223                      |
| Interfund receivable                | 766,624             | -                 | -                | 766,624                        |
| Total assets                        | <u>\$ 3,520,924</u> | <u>\$ 864,222</u> | <u>\$ 66,547</u> | <u>\$ 4,451,693</u>            |
| <b>LIABILITIES</b>                  |                     |                   |                  |                                |
| Interfund payable                   | \$ -                | \$ 766,513        | \$ 111           | \$ 766,624                     |
| Payroll withholdings                | 13,558              | -                 | -                | 13,558                         |
| Total liabilities                   | <u>13,558</u>       | <u>766,513</u>    | <u>111</u>       | <u>780,182</u>                 |
| <b>FUND BALANCES</b>                |                     |                   |                  |                                |
| Restricted for:                     |                     |                   |                  |                                |
| Capital projects                    | -                   | 97,709            | -                | 97,709                         |
| Assigned to:                        |                     |                   |                  |                                |
| Food service                        | -                   | -                 | 66,436           | 66,436                         |
| Unassigned                          | 3,507,366           | -                 | -                | 3,507,366                      |
| Total fund balances                 | <u>3,507,366</u>    | <u>97,709</u>     | <u>66,436</u>    | <u>3,671,511</u>               |
| Total liabilities and fund balances | <u>\$ 3,520,924</u> | <u>\$ 864,222</u> | <u>\$ 66,547</u> | <u>\$ 4,451,693</u>            |

See Notes to the Financial Statements



**BEULAH PUBLIC SCHOOL DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION**  
**MODIFIED CASH BASIS**  
**JUNE 30, 2016**

|                                        |    |           |
|----------------------------------------|----|-----------|
| Total fund balance, governmental funds | \$ | 3,671,511 |
|----------------------------------------|----|-----------|

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.

|                                |              |  |           |
|--------------------------------|--------------|--|-----------|
| Cost of capital assets         | 15,017,337   |  |           |
| Less: Accumulated Depreciation | (10,217,475) |  |           |
| Net                            | 4,799,862    |  | 4,799,862 |

|                                                                          |    |           |
|--------------------------------------------------------------------------|----|-----------|
| Net position of governmental activities in the Statement of Net Position | \$ | 8,471,373 |
|--------------------------------------------------------------------------|----|-----------|

See Notes to the Financial Statements

**BEULAH PUBLIC SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE – GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

|                                                         | General Fund | Building Fund | Hot Lunch Fund | Total<br>Governmental<br>Funds |
|---------------------------------------------------------|--------------|---------------|----------------|--------------------------------|
| <b>REVENUES</b>                                         |              |               |                |                                |
| Property taxes                                          | \$ 1,490,343 | \$ 409,826    | \$ -           | \$ 1,900,169                   |
| State sources                                           | 4,606,255    | -             | -              | 4,606,255                      |
| County sources                                          | 1,061,357    | -             | -              | 1,061,357                      |
| Charges for services                                    | -            | -             | 272,835        | 272,835                        |
| Other local sources                                     | 28,871       | 507           | 36,056         | 65,434                         |
| Federal sources                                         | 234,686      | -             | 138,210        | 372,896                        |
| Unrealized gain/(loss) on investments                   | 8,388        | -             | -              | 8,388                          |
| Total revenues                                          | 7,429,900    | 410,333       | 447,101        | 8,287,334                      |
| <b>EXPENDITURES</b>                                     |              |               |                |                                |
| Instruction:                                            |              |               |                |                                |
| Regular instruction                                     | 3,998,748    | -             | -              | 3,998,748                      |
| Special instruction                                     | 95,452       | -             | -              | 95,452                         |
| Vocational instruction                                  | 393,272      | -             | -              | 393,272                        |
| Total instruction                                       | 4,487,472    | -             | -              | 4,487,472                      |
| Support services:                                       |              |               |                |                                |
| Operations and maintenance                              | 645,596      | 130,734       | -              | 776,330                        |
| Student transportation                                  | 518,422      | -             | -              | 518,422                        |
| General administration services                         | 755,526      | -             | -              | 755,526                        |
| School administration services                          | 363,965      | -             | -              | 363,965                        |
| Food service                                            | -            | -             | 429,076        | 429,076                        |
| Student activities                                      | 375,041      | -             | -              | 375,041                        |
| Business office                                         | 124,035      | -             | -              | 124,035                        |
| School library services                                 | 107,280      | -             | -              | 107,280                        |
| Other support services                                  | 333,718      | -             | -              | 333,718                        |
| Debt service:                                           |              |               |                |                                |
| Principal                                               | -            | 301,704       | -              | 301,704                        |
| Interest                                                | -            | 15,257        | -              | 15,257                         |
| Capital outlay                                          | 224,330      | -             | -              | 224,330                        |
| Total support services                                  | 3,447,913    | 447,695       | 429,076        | 4,324,684                      |
| Total expenditures                                      | 7,935,385    | 447,695       | 429,076        | 8,812,156                      |
| Excess (deficiency) of revenues over expenditures       | (505,485)    | (37,362)      | 18,025         | (524,822)                      |
| <b>OTHER FINANCING SOURCES (USES)</b>                   |              |               |                |                                |
| Transfers in                                            | -            | 290,952       | -              | 290,952                        |
| Transfers out                                           | (290,952)    | -             | -              | (290,952)                      |
| Total other financing sources and uses                  | (290,952)    | 290,952       | -              | -                              |
| Net change in fund balances                             | (796,437)    | 253,590       | 18,025         | (524,822)                      |
| Fund balances - beginning of year, as originally stated | 3,702,506    | 262,663       | 48,411         | 4,013,580                      |
| Prior period adjustment                                 | 601,297      | (418,544)     | -              | 182,753                        |
| Fund balances - beginning of year, restated             | 4,303,803    | (155,881)     | 48,411         | 4,196,333                      |
| Fund balances - ending                                  | \$ 3,507,366 | \$ 97,709     | \$ 66,436      | \$ 3,671,511                   |

See Notes to the Financial Statements

**BEULAH PUBLIC SCHOOL DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE WITH**  
**THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Net change in fund balances - total governmental funds \$ (524,822)

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays exceeded depreciation in the current period.

|                                                    |           |           |
|----------------------------------------------------|-----------|-----------|
| Capital outlay                                     | 224,330   |           |
| Depreciation expense                               | (327,159) |           |
| Excess of depreciation expense over capital outlay | (102,829) | (102,829) |

Governmental funds report the entire net sales price (proceeds) from the sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the net book value of the assets sold.

(3,147)

Repayment of long-term debt is reported as an expenditure in governmental funds. However, the repayment reduces long-term liabilities in the Statement of Net Position.

301,704

Change in net position of governmental activities

\$ (329,094)

See Notes to the Financial Statements

**BEULAH PUBLIC SCHOOL DISTRICT**  
**STATEMENT OF ASSETS AND LIABILITIES-FIDUCIARY FUNDS**  
**MODIFIED CASH BASIS**  
**JUNE 30, 2016**

**ASSETS**

|                           |                          |
|---------------------------|--------------------------|
| Cash and cash equivalents | <u>\$ 129,142</u>        |
| Total assets              | <u><u>\$ 129,142</u></u> |

**LIABILITIES**

|                   |                          |
|-------------------|--------------------------|
| Due to students   | <u>\$ 129,142</u>        |
| Total liabilities | <u><u>\$ 129,142</u></u> |

See Notes to the Financial Statements



**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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

**Principal Activity**

Beulah Public School District operates the elementary, middle school, and high school in the City of Beulah, North Dakota.

**Reporting Entity**

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

Based on the above criteria, there are no component units included in the School District's reporting entity.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The District's financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP) because the governmental funds are presented on the modified cash basis of accounting. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

**Basis of Presentation**

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

Government-wide Financial Statements

The government-wide financial statements consist of a Statement of Net Position – modified cash basis and a Statement of Activities – modified cash basis. These statements display information about the District as a whole. The Statement of Net Position – modified cash basis presents the financial condition of the governmental activities of the District at year-end.

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

**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

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

Fund Financial Statements:

In order to aid financial management and to demonstrate legal compliance, the District segregates transactions related to certain functions or activities in separate funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The focus of the governmental fund financial statements is on major funds. Each major fund is presented as a separate column in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. There are no nonmajor funds shown on the financial statements.

**Fund accounting** – The District's funds consist of the following:

Governmental Funds

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

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

*Building fund* - This fund accounts for the acquisition and construction of the District's major capital facilities.

*Hot lunch fund* – This fund accounts for the activity and financial resources that support the District's hot lunch and breakfast programs.

Fiduciary Funds

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

*Student activity fund* – This fund accounts for the financial transactions related to the student activity programs.

**Measurement Focus and Basis of Accounting**

Measurement Focus

*Government-wide Financial Statements*

The government-wide financial statements are prepared using the economic resources measurement focus, within the limitations of the modified cash basis of accounting.



**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

*Fund Financial Statements*

The governmental funds are accounted for using a flow of current financial resources measurement focus, as applied to the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance reports on the sources and uses of current financial resources.

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

Fiduciary funds also use the economic resources measurement focus as applied to the modified cash basis of accounting.

Basis of Accounting

Government-wide financial statements are prepared on the modified cash basis of accounting. This basis recognizes assets, net position, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements. Payments for payroll withholdings are reported in the year that they are incurred and budgeted. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The District's governmental funds use the current financial resources measurement focus and the modified cash basis of accounting. Revenues are recognized when received in cash and expenditures are recorded at the time of disbursement, except for interfund activity and payroll withholdings and other benefits withheld from employee's pay. The District has elected to report the interfund receivables and payables when incurred and the payroll withholdings as a liability when withheld from the employee's payroll.

If the District utilized the basis of accounting recognized as generally accepted, the government-wide statements would be prepared on the accrual basis of accounting and the governmental fund financial statements would be prepared on the modified accrual basis of accounting.

**Revenue Recognition - Property Taxes**

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

Property taxes are limited by state laws. All school district tax levies are in compliance with state laws.

**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

**Budgets and Budgetary Accounting**

The District's Board follows the procedures established by North Dakota law for the budgetary process. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year. Formal budgetary integration is employed as a management control device during the year for the general fund. The school board must adopt the final budget on or before August 15. The Board may amend the budget during the year; however, no amendment changing the taxes levied can be made after October 10. The taxes levied must be certified to the county auditor by October 10. Under the District's budgetary basis of accounting, revenues and expenditures are budgeted on the cash basis of accounting.

**Cash and Cash Equivalents**

The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**Investments**

Investments are recorded at fair value. During the year ended June 30, 2016, the District implemented GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and financial derivative instruments and disclosures related to all fair value measurements. The District's implementation of this statement required no adjustment to prior periods; however it expanded the disclosure requirements for items carried at fair value.

**Capital Assets**

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported as assets in the fund financial statements. All capital assets are recorded at cost (or estimated historical cost). The assets are updated for additions and retirements during the District's fiscal year.

The District has established a capitalization threshold of \$5,000. Donated fixed assets are recorded at their fair market values at the date received. The District does not have any infrastructure assets. Improvements that significantly extend the useful life of the asset are also capitalized.

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

|                            |          |
|----------------------------|----------|
| Buildings and Improvements | 50 years |
| Equipment and Furniture    | 5 years  |
| Vehicles                   | 8 years  |



**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

**Early Retirement and Sick Leave**

The School offers an early retirement payment option to teachers if they choose to retire early. The benefit is available to employees who have completed 20 years of service to the Beulah Public School District, with at least 10 being consecutive, and the employee has attained eligibility standards of the Teachers' Fund for Retirement of North Dakota for a normal (unreduced) service retirement. The benefit is 80% of the teacher's current curricular lane placement on the salary schedule during the first year of eligibility under TFFR and 60% of the teacher's current curricular lane placement on the salary schedule for the five subsequent years of TFFR eligibility.

**Net Position**

Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities related to those assets. Unrestricted Net Position is the net amount of assets and liabilities that are not included in the determination of net investments in capital assets or the restricted component of net position.

**Net Position Flow Assumption**

Sometimes, the government will fund outlays for particular purposes for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted-net position to have been depleted before unrestricted – net position is applied.

**Fund Balance Classifications**

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

*Nonspendable* – consists of amounts that are not in spendable form, such as inventory and prepaid items. The District does not have any fund balance classified as nonspendable.

*Restricted* – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions and administered by the North Dakota Department of Education.

*Committed* – consists of internally imposed constraints. These constraints are established by Resolution of the School Board. The District does not have any fund balance classified as committed.

*Assigned* – consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the District's intended use. These constraints are established by the School Board and/or management.

**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

*Unassigned* – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

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

When committed, assigned or unassigned resources are available for use, it is the District's policy to use resources in the following order; 1) committed, 2) assigned and 3) unassigned.

**Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**Estimates**

The preparation of the financial statements in conformity with the modified cash basis of accounting used by the District requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE 3 CONCENTRATION OF CREDIT RISK**

**Custodial Credit Risk**

Custodial credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution's failure, the District would not be able to recover the deposits or collateralized securities that are in the possession of the outside parties. The District does not have a formal policy regarding deposits. According to North Dakota Statute, all deposits must be either deposited with the Bank of North Dakota or in other financial institutions 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 a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

The District maintains cash on deposit at various financial institutions. The amount on deposit was insured by the FDIC up to \$250,000 at each institution. At June 30, 2016, the District had approximately \$2,426,931 in excess of the FDIC limits on deposit. The pledged securities in the District's name covered all but \$69,740 of the total deposits in excess of the FDIC limits.



**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

**NOTE 4 INVESTMENTS**

North Dakota state statute authorizes school districts to invest their surplus funds 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 d) Obligations of the state e) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in two hundred seventy days or less.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

At June 30, 2016, the District's investments were as follows:

| <u>Investment Type</u>                     | <u>Total Fair Value</u> | <u>Less Than 1 Year</u> | <u>1-6 Years</u>    |
|--------------------------------------------|-------------------------|-------------------------|---------------------|
| Government bonds                           | \$ 1,311,125            | \$ -                    | \$ 1,311,125        |
| Total debt investments                     | <u>1,311,125</u>        | <u>\$ -</u>             | <u>\$ 1,311,125</u> |
| Investments not subject to categorization: |                         |                         |                     |
| Money market                               | <u>9,098</u>            |                         |                     |
| Total investments                          | <u>\$ 1,320,223</u>     |                         |                     |

**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
JUNE 30, 2016

**Credit Risk**

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. The District does not have an investment policy that specifically addresses credit risk. The following table represents the District's ratings as of June 30, 2016.

| S&P Credit<br>Rating                          | Total Fair<br>Value | Government<br>Bonds |
|-----------------------------------------------|---------------------|---------------------|
| AA+                                           | \$ 1,065,615        | \$ 1,065,615        |
| NR                                            | 245,510             | 245,510             |
| Total credit risk - debt securities           | <u>1,311,125</u>    | <u>\$ 1,311,125</u> |
| Investments not subject<br>to categorization: |                     |                     |
| Money market                                  | <u>9,098</u>        |                     |
| Total investments                             | <u>\$ 1,320,223</u> |                     |

**NOTE 5 FAIR VALUE OF FINANCIAL INSTRUMENTS**

In accordance with GASB Statement No. 72, assets, deferred outflows of resources, liabilities and deferred inflows of resources are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1: Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2: Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.



**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

The following table below presents the balances of assets measured at fair value on a recurring basis at June 30, 2016.

|                  | Total               | Quoted Prices<br>in Active<br>Markets<br>Level 1 | Significant<br>Other<br>Observable<br>Inputs<br>Level 2 | Significant<br>Unobservable<br>Inputs<br>Level 3 |
|------------------|---------------------|--------------------------------------------------|---------------------------------------------------------|--------------------------------------------------|
| <b>ASSETS</b>    |                     |                                                  |                                                         |                                                  |
| Government bonds | \$ 1,311,125        | \$ -                                             | \$ 1,311,125                                            | \$ -                                             |
| Money market     | 9,098               | 9,098                                            | -                                                       | -                                                |
| Total            | <u>\$ 1,320,223</u> | <u>\$ 9,098</u>                                  | <u>\$ 1,311,125</u>                                     | <u>\$ -</u>                                      |

**NOTE 6 CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

|                                                | Balance<br>7/1/15   | Additions           | Deductions      | Balance<br>6/30/16  |
|------------------------------------------------|---------------------|---------------------|-----------------|---------------------|
| Capital assets not being depreciated:          |                     |                     |                 |                     |
| Construction in progress                       | \$ -                | \$ 17,755           | \$ -            | \$ 17,755           |
| Capital assets being depreciated:              |                     |                     |                 |                     |
| Buildings and improvements                     | 13,354,392          | 6,000               | -               | 13,360,392          |
| Equipment and furniture                        | 421,864             | 25,849              | -               | 447,713             |
| Vehicles                                       | 1,056,512           | 174,726             | 39,760          | 1,191,478           |
| Total capital assets being depreciated         | <u>14,832,768</u>   | <u>206,575</u>      | <u>39,760</u>   | <u>14,999,583</u>   |
| Less accumulated depreciation:                 |                     |                     |                 |                     |
| Buildings and improvements                     | 8,930,147           | 200,756             | -               | 9,130,903           |
| Equipment and furniture                        | 341,365             | 25,684              | -               | 367,049             |
| Vehicles                                       | 655,417             | 100,719             | 36,612          | 719,524             |
| Total accumulated depreciation                 | <u>9,926,929</u>    | <u>327,159</u>      | <u>36,612</u>   | <u>10,217,476</u>   |
| Net capital assets for governmental activities | <u>\$ 4,905,839</u> | <u>\$ (102,829)</u> | <u>\$ 3,148</u> | <u>\$ 4,799,862</u> |

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

|                            |                   |
|----------------------------|-------------------|
| Function:                  |                   |
| Regular Instruction        | \$ 169,830        |
| Student Transportation     | 100,719           |
| Operations and Maintenance | 33,966            |
| Food Service               | 11,322            |
| Student Activities         | 11,322            |
|                            | <u>\$ 327,159</u> |

**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

**NOTE 7    EARLY RETIREMENT AND SICK LEAVE OBLIGATIONS**

The District participates in an early retirement plan where an employee may chose early retirement if they have been a full-time employee who has completed a total of twenty years of service to the District. The plan provides a positive method for dealing with declining enrollments and the resulting need to reduce staff. If a teacher retires the first year of eligibility they will get 80 percent of the lane placement on the salary schedule and will get 60 percent if they retire the five years after the initial year. The amount of early retirement obligations the District owes at June 30, 2016 is \$58,148. The District also pays sick leave out at a maximum amount of 120 days at \$50 per day to employees who have taught in the District for twenty or more years, with at least ten years consecutively. The amount of sick leave the District owes at June 30, 2016 is \$17,725. The District will be paying these obligations during the next fiscal year.

**NOTE 8    LONG-TERM DEBT OBLIGATIONS**

The District entered into an energy services agreement in March 2010 to consolidate a new and prior loan in the amount of \$481,200. The agreement provided for quarterly payments of \$13,005, including interest at a nominal rate of 4.45%, through March 2022. During the year ended June 30, 2016, this note was paid off in its entirety, and there is no outstanding principal balance at year end.

**NOTE 9    PENSION PLAN**

**North Dakota Teachers' Fund for Retirement**

The District contributes to the North Dakota Teachers' Fund for Retirement (TFFR); a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. TFFR provides for retirement, disability, and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with Chapter 15-39.1 of the North Dakota Century Code. TFFR issues a publicly available financial report that includes financial statements and required supplementary information for TFFR. The report is located on the North Dakota Retirement and Investment Office website, [www.nd.gov/rio](http://www.nd.gov/rio), or may be obtained by writing to Teachers' Fund for Retirement, PO Box 7100, Bismarck, North Dakota, 58507-7100.

Plan members are required to contribute 11.75% of their annual covered salary and the District is required to contribute 12.75% of the teacher's salary. Both contribution percentages will be reduced to 7.75% each when the fund reaches 100% funded ratio on an actuarial basis. The District may elect to pay all or a portion of the member's contribution as a salary supplement under certain employer payment plans. The contribution requirements of plan members and the District are established and may be amended by the State legislature. The District's contributions to TFFR for the fiscal year ended June 30, 2016 were \$436,374.



**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

The District is reporting on the modified cash basis, therefore is not required to report the net pension liability, deferred inflows of resources, and deferred outflows of resources as required by GASB Statement No. 68 – an amendment of GASB Statement No. 27 and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As of June 30, 2015, the District proportionate share of the overall TFRF allocation was 0.550626% and its portion of the net pension liability was \$7,201,391.

Detailed information about the pension plan's fiduciary net position is available in the separately issued TFRF report. Requests to obtain or review this report should be addressed to the North Dakota Retirement and Investment Office, 1930 Burnt Boat Dr. Bismarck, ND 58503.

**North Dakota Public Employees' Retirement System**

The District participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the State of North Dakota. Following is a brief description of the plan.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all permanent employees of the District. The plan provides retirement, disability, and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred, or monthly payments in an amount equal to the employee's accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2% of their final average salary for each year of service beginning when the sum of age and years of credited service equal to exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The District has implemented a salary reduction agreement and is currently contributing the employee's share. The District is required to contribute 7.12% of each participant's salary as the employer's share. The required contributions are determined using an entry age normal actuarial funding method and are included in state statute. The North Dakota Retirement board was created by the State Legislature and is the governing authority of NDPERS. The District's contributions to NDPERS for the fiscal year ended June 30, 2016 were \$63,147.

**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
JUNE 30, 2016

The District is reporting on the modified cash basis, therefore is not required to report the net pension liability, deferred inflows of resources, and deferred outflows of resources as required by GASB Statement No. 68 – an amendment of GASB Statement No. 27 and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As of June 30, 2015, the District proportionate share of the overall NDPERS allocation was 0.063726% and its portion of the net pension liability was \$433,326.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

**NOTE 10 INTERFUND RECEIVABLES/PAYABLES**

Interfund receivables/payables at June 30, 2016 are as follows:

| Fund           | Due From<br>Other Funds | Due To<br>Other Funds |
|----------------|-------------------------|-----------------------|
| General Fund   | \$ 766,624              | \$ -                  |
| Building Fund  | -                       | 766,513               |
| Hot Lunch Fund | -                       | 111                   |
|                | <u>\$ 766,624</u>       | <u>\$ 766,624</u>     |

The \$766,513 internal balance is a loan from the general fund to the building fund that was generated when the middle school was built in years past. It will be repaid once the fund balance is of the building fund grows enough to repay the amount loaned. The \$111 internal balance relates to amounts paid for out of the general fund that have not yet been reimbursed by the hot lunch fund. These amounts will be repaid in the current period.

**NOTE 11 TRANSFERS**

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended June 30, 2016.

| Fund          | Transfer In       | Transfer Out      |
|---------------|-------------------|-------------------|
| General Fund  | \$ -              | \$ 290,952        |
| Building Fund | 290,952           | -                 |
|               | <u>\$ 290,952</u> | <u>\$ 290,952</u> |

The purpose of the \$290,952 transfer from the general fund to the building fund was to pay off the remaining principal balance on the energy services loan.



**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

**NOTE 12 RISK MANAGEMENT**

Beulah Public School District is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, State agencies and political subdivision 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 District 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.

Beulah Public School District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The District pays an annual premium to the Fire and Tornado Fund to cover property damage to 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 two million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the District with blanket fidelity bond coverage in the amount of two million dollars for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

Beulah Public School District participates in North Dakota Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

Settled claims resulting from the above risks, have not exceeded insurance coverage in any of the past three fiscal periods.

**NOTE 13 NONMONETARY TRANSACTIONS**

The District receives food commodities from the federal government to subsidize its hot lunch program. The market value of commodities received for the year ended June 30, 2016 was \$35,798.

**NOTE 14 ECONOMIC DEPENDENCY**

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

**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

**NOTE 15 CONTINGENCIES**

The District received financial assistance from federal and state agencies in the form of grants. The expenditures of funds received under these programs generally requires compliance with items and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund. The District's management believes it has complied with all applicable grant provisions. In the opinion of management, any possible disallowed claims would not have a material adverse effect on the overall financial position of the District as of June 30, 2016.

**NOTE 16 ISSUED BUT NON-EFFECTIVE PRONOUNCEMENTS**

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

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

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

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



**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

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

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

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

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

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



**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2016**

**NOTE 17 BUDGET COMPLIANCE**

The General Fund had \$204,535 in expenditures in excess of budget for the year ending June 30, 2016.

**NOTE 18 PRIOR PERIOD ADJUSTMENT**

The District has posted a prior period adjustment to its June 30, 2015 financial statements to properly record interfund receivables and payables between the general fund and the building fund. The net effect of this prior period adjustment was an increase in interfund receivables and opening fund balance of \$418,544 in the general fund and an increase of interfund payables and opening fund balance of \$418,544 in the building fund. The adjustments resulted in no net change in net position on the Statement of Activities – modified cash basis.

A prior period adjustment was also made in the general fund for \$182,753 to properly record interfund activity in the prior year. The adjustment resulted in an increase in cash and beginning net position of \$182,753 on the Statement of Net Position – modified cash basis and Statement of Activities – modified cash basis, respectively.

**BEULAH PUBLIC SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND**  
**MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

|                                            | Budget Amounts,<br>Original and Final | Actual Amounts      | Variance with Final<br>Budget - Positive<br>(Negative) |
|--------------------------------------------|---------------------------------------|---------------------|--------------------------------------------------------|
| <b>REVENUES</b>                            |                                       |                     |                                                        |
| Property taxes                             | \$ 1,269,259                          | \$ 1,490,343        | \$ 221,084                                             |
| State sources                              | 5,037,084                             | 4,606,255           | (430,829)                                              |
| County sources                             | 1,028,487                             | 1,061,357           | 32,870                                                 |
| Other local sources                        | 110,000                               | 28,871              | (81,129)                                               |
| Federal sources                            | 217,748                               | 234,686             | 16,938                                                 |
| Unrealized gain/(loss) on investments      | -                                     | 8,388               | 8,388                                                  |
| <b>Total revenues</b>                      | <b>7,662,578</b>                      | <b>7,429,900</b>    | <b>(232,678)</b>                                       |
| <b>EXPENDITURES</b>                        |                                       |                     |                                                        |
| Instruction:                               |                                       |                     |                                                        |
| Regular instruction                        | 3,865,920                             | 3,998,748           | (132,828)                                              |
| Special instruction                        | 86,005                                | 95,452              | (9,447)                                                |
| Vocational instruction                     | 449,083                               | 393,272             | 55,811                                                 |
| <b>Total instruction</b>                   | <b>4,401,008</b>                      | <b>4,487,472</b>    | <b>(86,464)</b>                                        |
| Support services:                          |                                       |                     |                                                        |
| Operations and maintenance                 | 708,630                               | 645,596             | 63,034                                                 |
| Student transportation                     | 549,326                               | 518,422             | 30,904                                                 |
| General administration services            | 743,195                               | 755,526             | (12,331)                                               |
| School administration services             | 377,974                               | 363,965             | 14,009                                                 |
| Student activities                         | 289,404                               | 375,041             | (85,637)                                               |
| Business office                            | 125,360                               | 124,035             | 1,325                                                  |
| School library services                    | 125,027                               | 107,280             | 17,747                                                 |
| Other support services                     | 264,462                               | 333,718             | (69,256)                                               |
| Capital outlay                             | 60,000                                | 224,330             | (164,330)                                              |
| <b>Total support services</b>              | <b>3,243,378</b>                      | <b>3,447,913</b>    | <b>(204,535)</b>                                       |
| <b>Total expenditures</b>                  | <b>7,644,386</b>                      | <b>7,935,385</b>    | <b>(290,999)</b>                                       |
| <b>Net change in fund balances</b>         | <b>\$ 18,192</b>                      | <b>(796,437)</b>    | <b>\$ (523,677)</b>                                    |
| <b>Fund balances - beginning, restated</b> |                                       | <b>4,303,803</b>    |                                                        |
| <b>Fund balances - ending</b>              |                                       | <b>\$ 3,507,366</b> |                                                        |



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

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

To The President and Board Members  
Beulah Public School District  
Beulah, 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 each major fund of the Beulah Public School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 12, 2017.

**Internal Control over Financial Reporting**

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

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

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 responses as 2016-002, 2016-003, and 2016-004 to be material weaknesses.



A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2016-001 to be a significant deficiency.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2016-004.

#### **Beulah Public School District's Response to Findings**

Beulah Public School District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Beulah Public School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

#### **Purpose of This Report**

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



**BRADY, MARTZ & ASSOCIATES, P.C.**  
Bismarck, North Dakota

March 12, 2017

**BEULAH PUBLIC SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

2016-001

Criteria

An appropriate system of internal control requires the entity to determine that financial statements are properly stated in compliance with the modified cash basis of accounting. This requires the entity's personnel to maintain knowledge of current accounting principles and required financial statement disclosures.

Condition

The District's personnel prepare periodic financial information for internal use that meets the needs of the board. However, the District does not have internal resources to prepare full-disclosure financial statements for external reporting.

Cause

The District's internal controls have not been designed to address the specific training needs that are required of its personnel to obtain and maintain knowledge of current accounting principles and required financial statement disclosures.

Effect

An appropriate system of internal controls is not present to make a determination that financial statements and the related disclosures are fairly stated in compliance with the modified cash basis of accounting. However, the entity is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to the end users.

Recommendation

We recommend that the entity reviews its current training system to determine if it is cost effective for the entity to obtain this knowledge internally. As a compensating control the entity should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Action

The District has reviewed their current system and due to the small size of the entity, it is not cost effective for the District to properly address this significant deficiency.

**BEULAH PUBLIC SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2016**

2016-002 – Material Weakness

Criteria

Generally, an appropriate system of internal control has the proper separation of duties between authorization, custody, record keeping and reconciliation functions.

Condition

There is not a system in place for accounting duties to be properly segregated between authorization, custody, record keeping and reconciliation.

Cause

Size and budget constraints limit the number of personnel within the accounting department.

Effect

The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

The District should consider if segregation of duties could be improved with respect to the District's cash receipt and disbursement functions. The District should also consider if monitoring controls could be improved. While not a complete listing, some possible internal controls to consider are as follows:

- Periodic comparisons of direct deposit listing to amounts clearing in bank statements by someone other than the business manager.
- Periodic analytical review of hot lunch revenue based on meal counts, board approved meal rates, and government reimbursement rates.
- Review the segregation of duties over the District's cash receipt and disbursement functions.
- Review of bank statements and reconciliations by someone other than the individual preparing them.

Views of Responsible Officials and Planned Corrective Action

The District will continue to explore opportunities to improve its segregation and monitoring controls.



**BEULAH PUBLIC SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2016**

2016-003 – Material Weakness

Criteria

The District is required to maintain internal controls at a level where underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected on the modified cash basis of accounting.

Condition

During our audit, adjusting entries to the financial statements were proposed in order to bring the financial statements into compliance with the modified cash basis of accounting.

Cause

The entity's internal controls have not been designed to address the specific training needs that are required to maintain the general ledger accounts on a modified cash basis.

Effect

An appropriate system of internal controls is not present to make a determination that the general ledger accounts are properly adjusted in compliance with the modified cash basis of accounting prior to the audit.

Recommendation

Accounting personnel will need to determine the proper balance in each general ledger account prior to the audit. We recommend that the entity reviews its current training system to determine if it is cost effective for the entity to obtain this knowledge internally.

Views of Responsible Officials and Planned Corrective Action

The District will review the current year adjustments and determine if it is cost beneficial for the business manager to identify the adjustments prior to the start of future audits.

**BEULAH PUBLIC SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2016**

2016-004 – Material Weakness

Criteria

In accordance with the North Dakota Century Code 21-04-09, the District's deposits in excess of FDIC depository insurance must be protected by a bond or by collateral, which, when computed at market value, shall be at least ten percent more than the amount of the excess deposit.

Condition

The District was under collateralized at one of its financial institutions as of June 30, 2016.

Cause

The District was under collateralized by \$69,740 at June 30, 2016 due to deposits in one of its financial institutions that exceeded the FDIC coverage and collateral pledged.

Effect

The District did not have all their deposits adequately covered by FDIC coverage and / or pledged securities as of June 30, 2016 and is not in compliance with North Dakota Century Code 21-04-09.

Recommendation

We recommend the District review all bank accounts and pledged securities to ensure all deposits are adequately covered by FDIC coverage and / or pledged securities.

Views of Responsible Officials and Planned Corrective Action

The District will better monitor to ensure all deposits are adequately covered by either FDIC insurance or through pledged collateral.