**MINOT PUBLIC SCHOOL DISTRICT NO. 1**
**MINOT, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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BradyMartz

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Minot Public School District No. 1
Minot, North Dakota

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Minot Public School District No. 1 (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

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

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Minot Public School District No. 1 as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

*Implementation of New Accounting Principle*

As discussed in Notes 2 and 19 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. Our opinions are not modified with respect to this matter.

**Correction of an Error / Restatement**

As discussed in Note 18 to the financial statements, the District has recorded a prior period adjustment to its July 1, 2017 financial statements to properly record cash and bonds payable. The adjustment had no effect on the previously reported net position. Our opinions are not modified with respect to this matter.

As discussed in Note 20 to the financial statements, the District determined that the Minot Air Force Base District No. 160 should be treated as a discretely presented component unit, and has therefore reclassified the activities of the Minot Air Force Base District No. 160 to be shown as a discretely presented component unit. The Minot Air Force Base District No. 160 had previously been reported as a blended component unit. Our opinions are not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

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

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards and notes to the schedule of expenditures of federal awards are presented for purposes of additional analysis, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and notes to the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 schedule of expenditures of federal awards and notes to the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Brady Martz

**BRADY, MARTZ & ASSOCIATES, P.C.**
**BISMARCK, NORTH DAKOTA**

January 18, 2019

The discussion and analysis of Minot Public School District No. 1's financial performance provides an overall review of the District's financial activities for the year ended June 30, 2018. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

## Financial Highlights

Key financial highlights for MPSD #1 including the discretely presented component unit MAFB PSD #160 are as follows:

- Net position of the District decreased by $7,769,004.
- Governmental net position totaled $41,017,867.
- The District's general fund had $98,398,821 in total revenues and $99,047,098 in expenditures before any other financing sources or uses. Overall, the general fund balance decreased by $1,810,142 for the year ended June 30, 2018, and now totals $20,576,353.

The annual report consists of a series of financial statements and related footnotes. These statements are organized so the reader can understand Minot Public School District No. 1 as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities. The Statement of Net Position and Statement of Activities provide information about the activities of the whole District, present both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column.

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

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

## <u>Reporting the School District as a Whole</u>

### Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did the District do financially during the year ended June 30, 2018?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets, liabilities and deferred inflows/outflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

## <u>Reporting the School District's Most Significant Funds</u>

### Fund Financial Statements

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

### Governmental Funds

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

## Financial Analysis of the District as a Whole

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

Table 1 provides a summary of the District's net position (including component unit MAFB PSD #160) as of June 30, 2018. As the table illustrates, net position decreased by 17.7% during the past fiscal year. As indicated in the financial highlights, the District's net position diminished by $8,821,109 for the year ended June 30, 2018. Net position may serve over time as a useful indicator of the District's financial position.

The District's June 30, 2018 net position of $41,017,867 segregated into three separate categories: 1) net position invested in Capital Assets (net of related debt), 2) restricted net position (resources that are subject to external restrictions on how they must be spent) and 3) unrestricted net position. Table 1 shows a comparison of assets, liabilities and net position between fiscal year ended June 30, 2018 and fiscal year ended June 30, 2017.

**Table 1 Net Position**

| | Including Component Unit 2018 | 2017 | % Change 2018-2017 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | $ 43,217,238 | $ 42,759,760 | 1.1% |
| Capital assets (net of depreciation) | 163,778,766 | 168,686,681 | -2.9% |
| Total assets | $ 206,996,004 | $ 211,446,441 | -2.1% |
| **Deferred Outflows of Resources** | $ 27,736,551 | $ 28,018,701 | -1.0% |
| **Liabilities** | | | |
| Current liabilities | $ 15,605,139 | $ 14,146,795 | 10.3% |
| Long-term liabilities | 174,249,871 | 172,246,083 | 1.2% |
| Total liabilities | $ 189,855,010 | $ 186,392,878 | 1.9% |
| **Deferred Inflows of Resources** | $ 3,859,678 | $ 3,233,288 | 19.4% |
| **Net Position** | | | |
| Net investment in capital assets | $ 105,218,633 | $ 106,799,888 | -1.5% |
| Restricted | 3,342,340 | 14,035,766 | -76.2% |
| Unrestricted | (67,543,106) | (70,996,678) | -4.9% |
| | $ 41,017,867 | $ 49,838,976 | -17.7% |

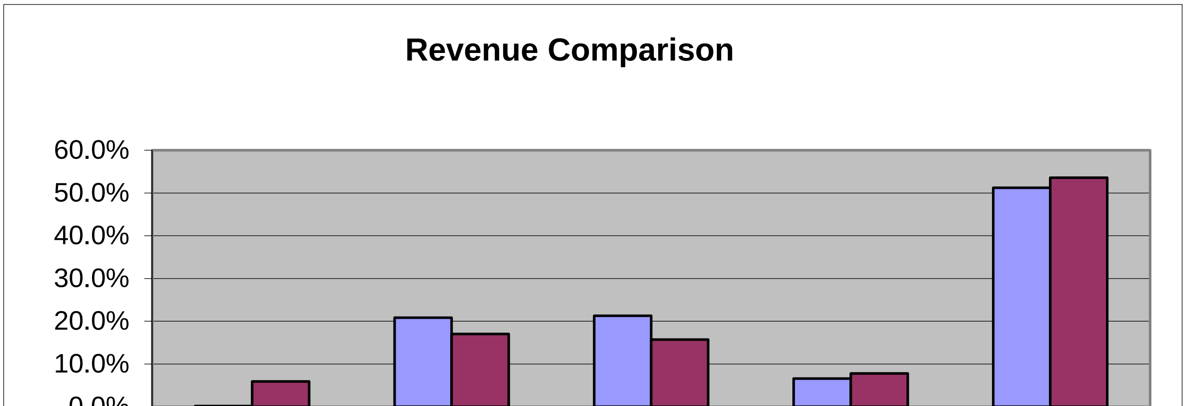
Table 2 shows the changes in net position (including component unit) for fiscal year ended June 30, 2018 in comparison to the year ended June 30, 2017.

**Table 2 Changes in Net Position**

| **Revenues** | **2018** | **2017** | **Variance 2018-2017** |
|---|---|---|---|
| Program Revenues: | | | |
| Charges for services | $ 12,552,141 | $ 5,374,023 | $ 7,178,118 |
| Operating grants and contributions | 12,992,903 | 13,267,884 | (274,981) |
| Capital grants and contributions | 224,525 | 154,638 | 69,887 |
| General Revenues: | | | |
| Taxes | 25,232,763 | 20,434,661 | 4,798,102 |
| State aid | 62,088,568 | 64,249,841 | (2,161,273) |
| Impact aid | 7,684,859 | 9,048,028 | (1,363,169) |
| Other federal aid | 219,851 | 229,079 | (9,228) |
| Other | 192,905 | 7,103,964 | (6,911,059) |
| Total revenues | $ 121,188,515 | $ 119,862,118 | $ 1,326,397 |
| | | | |
| **Expenses** | | | |
| Instruction: | | | |
| Regular | $ 48,403,442 | $ 49,801,814 | $ (1,398,372) |
| Special education | 16,502,608 | 14,842,116 | 1,660,492 |
| Vocational education | 2,882,533 | 2,977,043 | (94,510) |
| Federal | 4,961,945 | 5,349,970 | (388,025) |
| Tuition | 1,335,904 | 1,437,697 | (101,793) |
| Support services: | | | |
| Pupil services | 3,017,795 | 2,799,947 | 217,848 |
| Instructional staff services | 3,673,959 | 3,855,757 | (181,798) |
| General administration services | 3,734,005 | 3,369,015 | 364,990 |
| School administration services | 6,825,256 | 6,175,110 | 650,146 |
| Business services | 692,754 | 637,859 | 54,895 |
| Operations and maintenance | 9,435,475 | 8,959,817 | 475,658 |
| Pupil transportation | 2,372,923 | 2,176,861 | 196,062 |
| Head start | 3,763,325 | 3,751,658 | 11,667 |
| Adult learning center | 436,503 | 413,426 | 23,077 |
| Interest expense | 1,866,042 | 1,605,280 | 260,762 |
| Non education services: | | | |
| Enterprise services | 358,601 | 370,197 | (11,596) |
| Food services | 5,207,181 | 4,410,203 | 796,978 |
| Community services | 2,386,641 | 2,351,706 | 34,935 |
| Extracurricular activities | 1,833,975 | 1,809,688 | 24,287 |
| Services provided another LEA | 155,145 | 139,960 | 15,185 |
| Other facilities costs | 1,294,302 | 3,439,728 | (2,145,426) |
| Total expenses | 121,140,314 | 120,674,852 | 465,462 |
| Component Unit | 7,817,205 | | |
| Increase (Decrease) in Net Position | (7,769,004) | (812,734) | (6,956,270) |
| Net position - beginning of year | 49,838,976 | 52,302,033 | (2,463,057) |
| Prior period adjustment - see note 19 | (1,052,105) | (1,650,323) | 598,218 |
| Net position - beginning of year - restated | 48,786,871 | 50,651,710 | (1,864,839) |
| Net position - ending | $ 41,017,867 | $ 49,838,976 | $ (8,821,109) |

As indicated in table 2, revenue for year ended June 30, 2018 was $121,188,515 compared to $119,862,118 for year ended June 30, 2017. The difference, $1,326,397 constituted an increase of approximately 1.1%.

Property taxes constituted 20.8%, state aid 51.2%, federal aid 6.6%, program revenue 21.3% and other sources 0.2% of the total revenues of governmental activities of the District for fiscal year 2018. A comparison of the year ended June 30, 2018 and June 30, 2017 is shown below.



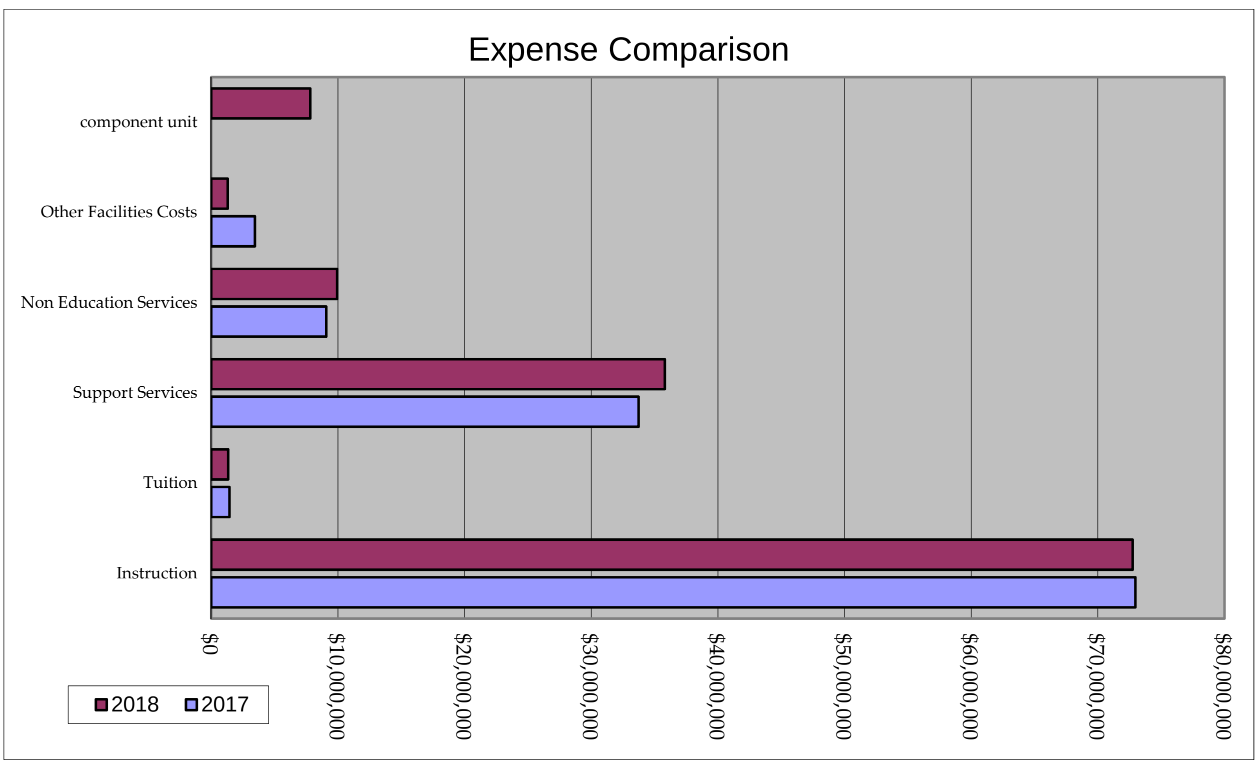

| | Other Sources | Property Taxes | Program Revenue | Federal Aid | State Aid |
|---|---|---|---|---|---|
| 2018 | 0.2% | 20.8% | 21.3% | 6.6% | 51.2% |
| 2017 | 5.9% | 17.0% | 15.7% | 7.8% | 53.6% |

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

**Table 3**

| | Total Cost for Year Ended 6/30/2018 | Net Cost for Year Ended 6/30/2018 |
|---|---|---|
| Instruction | $ 72,750,528 | $ 61,168,078 |
| Tuition | 1,335,904 | 1,335,904 |
| Support services | 35,818,037 | 28,833,858 |
| Non education services | 9,941,543 | 2,963,128 |
| Other facilities costs | 1,294,302 | 1,260,032 |
| Component Unit | 7,817,205 | 7,626,950 |
| Total expenses | $ 128,957,519 | $ 103,187,950 |

The following chart shows a comparison of cost of services for years ended June 30, 2018 and June 30, 2017. Total expenses increased to $128,957,519 for year ended June 30, 2018 from $120,674,852 for year ended June 30, 2017, an increase of approximately 6.9%.



Instruction expenses include activities dealing directly with the teaching of pupils and the interaction between teacher and pupil including regular education, special education, career and technical education and federal programs. Instruction comprised 56.4% of district expenses in 2018 compared to 60.5% in 2017.

Tuition expenses are the costs to reimburse other educational agencies for instructional services to students residing in the Minot Public School District's legal boundaries.

Support Services includes pupil's services, instructional staff services, general administration services, school administration services, business services, operation and maintenance of plant, pupil transportation services, Head Start, Adult Learning Center and interest expense.

Non Education Services include Enterprise Services, Food Services, Community Services, Extracurricular activities and Services provided another LEA.

Other facilities costs include costs associated with construction services provided by contractors hired by the district.

## Financial Analysis of the District's Governmental Funds

The focus of the District's governmental funds is to provide information on the near-term inflows, outflows, and balances of available resources. Unassigned fund balance generally may be used as a measure of the District's net resources available for spending at the end of the fiscal year. These funds are accounted for using the modified accrual basis of accounting. The District's governmental funds had total revenues of $114,812,882 and expenditures of $114,404,644 for the year ended June 30, 2018. As of June 30, 2018, the unassigned fund balance of the District's general fund was $20,282,571 and total unassigned fund balance for all of the District's governmental funds was $8,661,227. There was an increase of $787,770 in the unassigned fund balance for all of the District's governmental funds.

The most significant variance in any one individual fund took place in the Capital Projects Fund.

For the 2017-2018 school year there was a projected deficit of $3,370,000 (expenditures exceed revenue) with anticipated Revenue of $98,595,000 and anticipated Expenditures of $101,965,000. In actuality the General Fund did experience a deficit totaling $117,164 for year ended June 30, 2018.

## General Fund Budgeting Highlights

The most significant variations between the final budget amounts and the actual budget amounts were in the following areas:

| | Final Budget | Actual | Reason |
|---|---|---|---|
| **REVENUE:** | | | |
| Property Taxes | $18,821,000 | $19,729,941 | Timing of final 2017 collections |
| **EXPENDITURE:** | | | |
| Regular Instruction | $42,790,063 | $41,626,395 | Lower than expected payroll costs. |

With total variances, between budget and actual, of less than 1.76% in expenditures and 1.5% in revenue, it can be accurately stated that the district did a good job in their budget process.

The actual revenue for the year ended June 30, 2018 was over budget projections by approximately $1.37 million. The actual expenditures for the year ended June 30, 2018 were under budget by approximately $2.38 million not including transfers out.

## Capital Assets

As of June 30, 2018, the District had $163,778,766 invested in capital assets. Table 4 shows balances as of June 30, 2018 and June 30, 2017. The third column shows the variances between those years. See note 7 to the financial statements.

**Table 4**

Capital Assets (Net of Depreciation) at June 30th

| | 2018 | 2017 | Variance |
|---|---|---|---|
| Land | $ 4,625,335 | $ 4,725,335 | $ (100,000) |
| Construction in progress | 106,250 | 139,377 | (33,127) |
| Land improvements | 19,471,926 | 21,056,318 | (1,584,392) |
| Buildings and improvements | 136,106,919 | 139,039,025 | (2,932,106) |
| Furniture and equipment | 3,468,336 | 3,726,626 | (258,290) |
| Totals | $ 163,778,766 | $ 168,686,681 | $ (4,907,915) |

As indicated in Table 4, the District's Net Capital Assets for Governmental Activities decreased $4,907,915 or 2.9%. The largest change was in amount of depreciation.

## Debt Administration

As of June 30, 2018, the District had $57,705,731 in outstanding long-term debt compared to $61,300,483 as of June 30, 2017. Of the $57,705,731 in outstanding debt, $3,678,739 is due within one year in comparison to $3,277,401 in the previous year. The district issued no new debt in the fiscal year which ended June 30, 2018. The bond rates for the existing debt instruments range from 1.75% to 2.85% for the 2011 Refunding issuance, 2.0% to 3.125% for the 2011 G.O. issuance, 2.57% for the 2012B issuance, 2.75% to 3.50% for 2014 G.O. issuance, 1.72% for the 2014B G.O. issuance, 2.0% to 4.0% for the 2015 G.O. issuance, 2%-3% for the 216 G.O. issuance and 2% for the 2016B Lease Revenue Refunding issuance. See note 10 to the financial statements.

**Table 5**

Outstanding Debt at June 30, 2018

| | | |
|---|---|---|
| 2011 Lease revenue refunding bonds | $ | 1,330,000 |
| 2011 General obligation bonds | | 7,000,000 |
| 2012B General obligation bonds | | 7,512,590 |
| 2014 General obligation bonds | | 9,945,000 |
| 2014B General obligation bonds | | 16,518,141 |
| 2015 General obligation bonds | | 7,595,000 |
| 2016A General Obligation Bonds | | 4,800,000 |
| 2016B Lease Revenue Refunding Bonds | | 3,005,000 |
| Total | $ | 57,705,731 |

## For the Future

The 2018-2019 preliminary budget includes a projected deficit of $2.85 million which is attributable to a variety of factors: 1) an approximate 3% decrease in the school district's taxable valuation which is the basis for all local property tax revenue, 2) a decrease in the hub city revenue which is based on the economics of the oil & gas industry and the N.D. Legislature and 3) no increase in the per pupil amount in the state foundation aid formula.

The School Board and Administration continues to keep a very close eye on student enrollment in the District and the taxable valuation of the District. Enrollment increase slightly for the 2017-2018 school year. However, the District has many challenges ahead including but not limited to building and staffing demands. Since many of the District's major revenue sources, state aid and federal aid just to name two, are based on average daily membership, enrollment or average daily attendance, any substantial change in student numbers significantly impacts those major sources of revenue and with the declining price of oil, the population in the area will decrease and as a result, so could student enrollment and taxable valuations.

The district's reserves remain strong, but that could be strained should the need to deficit spend continue.

## Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. You may request a copy of this report and/or a copy of the Minot Air Force Base District No. 160 report by contacting Scott Moum, Business Manager, Minot Public School District, 215 2nd St SE, Minot ND 58701, or email at **Scott.Moum@minot.k12.nd.us.**

# MINOT PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF NET POSITION
JUNE 30, 2018

| | Governmental Activities | MPSD AFB #160 Component Unit |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and equivalents | $ 21,919,898 | $ 6,819,898 |
| Taxes receivable | 2,949,715 | - |
| Due from other governmental agencies (net of allowance) | 9,830,780 | 1,043,582 |
| Inventories | 359,583 | - |
| Other assets | 293,782 | - |
| Total current assets | 35,353,758 | 7,863,480 |
| Non-current assets: | | |
| Capital assets (depreciable) | 220,402,805 | - |
| Land | 4,625,335 | - |
| Construction in progress | 106,250 | - |
| Less: accumulated depreciation | (61,355,624) | - |
| Total non-current assets | 163,778,766 | - |
| Total assets | 199,132,524 | 7,863,480 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Deferred outflow - pension | 27,414,341 | - |
| Deferred outflow - OPEB | 322,210 | - |
| Total deferred outflows of resources | 27,736,551 | - |
| **LIABILITIES** | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | 10,261,807 | 18,396 |
| Accrued interest | 803,641 | - |
| Compensated absences | 624,217 | - |
| Current portion of bonds payable | 3,678,739 | - |
| Current portion of bond premium | 105,380 | |
| Unearned revenue | 112,959 | - |
| Total current liabilities | 15,586,743 | 18,396 |
| Non-current liabilities | | |
| Net pension liability | 118,228,799 | - |
| Net OPEB liability | 1,245,058 | - |
| Non-current portion of bonds payable | 54,776,014 | - |
| Total non-current liabilities | 174,249,871 | - |
| Total liabilities | 189,836,614 | 18,396 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Deferred inflow - pension | 3,770,840 | - |
| Deferred inflow - OPEB | 88,838 | - |
| Total deferred inflows of resources | 3,859,678 | - |
| **NET POSITION** | | |
| Net investment in capital assets | 105,218,633 | - |
| Restricted for: | | |
| Capital projects | - | 246,062 |
| Debt service | 3,096,278 | - |
| Unrestricted | (75,142,128) | 7,599,022 |
| Total net position | $ 33,172,783 | $ 7,845,084 |

See Notes to the Financial Statements

**MINOT PUBLIC SCHOOL DISTRICT NO. 1**
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

| Functions/Programs | Expenses | Program Revenue: Charges for Services | Program Revenue: Operating Grants/ Contributions | Program Revenue: Capital Grants/ Contributions | Net (Expense) Revenue and Changes in Net Position: Governmental Activities | MPSD AFB #160 Component Unit |
|---|---|---|---|---|---|---|
| Governmental Activities | | | | | | |
| Instruction: | | | | | | |
| Regular | $ 48,403,442 | $ 5,214,598 | $ 64,635 | $ - | $ (43,124,209) | |
| Special education | 16,502,608 | 678,309 | 285,602 | - | (15,538,697) | |
| Vocational education | 2,882,533 | - | 715,038 | - | (2,167,495) | |
| Federal | 4,961,945 | - | 4,624,268 | - | (337,677) | |
| Total instruction | 72,750,528 | 5,892,907 | 5,689,543 | - | (61,168,078) | |
| Tuition: | 1,335,904 | - | - | - | (1,335,904) | |
| Support services: | | | | | | |
| Pupil services | 3,017,795 | - | - | - | (3,017,795) | |
| Instructional staff services | 3,673,959 | - | - | - | (3,673,959) | |
| General administration services | 3,734,005 | - | - | - | (3,734,005) | |
| School administration services | 6,825,256 | - | - | - | (6,825,256) | |
| Business services | 692,754 | - | - | - | (692,754) | |
| Operations and maintenance | 9,435,475 | 2,500,000 | - | - | (6,935,475) | |
| Pupil transportation services | 2,372,923 | - | 350,563 | - | (2,022,360) | |
| Head start | 3,763,325 | - | 3,723,490 | - | (39,835) | |
| Adult learning center | 436,503 | 7,489 | 402,637 | - | (26,377) | |
| Interest expense | 1,866,042 | - | - | - | (1,866,042) | |
| Total support services | 35,818,037 | 2,507,489 | 4,476,690 | - | (28,833,858) | |
| Non-education services: | | | | | | |
| Enterprise services | 358,601 | - | - | - | (358,601) | |
| Food services | 5,207,181 | 2,407,683 | 1,987,035 | - | (812,463) | |
| Community services | 2,386,641 | 1,493,664 | 779,635 | - | (113,342) | |
| Extracurricular | 1,833,975 | 250,398 | 60,000 | - | (1,523,577) | |
| Services provided another LEA | 155,145 | - | - | - | (155,145) | |
| Total non-education services | 9,941,543 | 4,151,745 | 2,826,670 | - | (2,963,128) | |
| Other facilities costs: | 1,294,302 | - | - | 34,270 | (1,260,032) | |
| Total governmental activities | $ 121,140,314 | $ 12,552,141 | $ 12,992,903 | $ 34,270 | (95,561,000) | |
| Component unit | $ 7,817,205 | $ - | $ - | $ 190,255 | | $ (7,626,950) |
| **General revenues:** | | | | | | |
| Taxes: | | | | | | |
| Property taxes, levied for general purposes | | | | | 20,130,104 | - |
| Property taxes, levied for special assessments | | | | | 112,082 | - |
| Property taxes, levied for debt service | | | | | 4,990,577 | - |
| State aid not restricted for specific purpose: | | | | | | |
| Per pupil aid and other state aid | | | | | 62,088,568 | - |
| Federal aid not restricted for a specific purpose: | | | | | | |
| Impact aid | | | | | - | 7,684,859 |
| Other federal aid | | | | | - | 219,851 |
| Interest income and other revenues | | | | | 138,107 | 54,798 |
| Total general revenues | | | | | 87,459,438 | 7,959,508 |
| Change in net position | | | | | (8,101,562) | 332,558 |
| Total net position - beginning of year - originally stated | | | | | 49,838,976 | - |
| Reclassification of component unit - see Note 20 | | | | | (7,512,526) | 7,512,526 |
| GASB 75 adjustment - see Note 19 | | | | | (1,052,105) | - |
| Net position - beginning of year - restated | | | | | 41,274,345 | 7,512,526 |
| Net position - ending | | | | | $ 33,172,783 | $ 7,845,084 |

See Notes to the Financial Statements

**MINOT PUBLIC SCHOOL DISTRICT NO. 1**
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018

| | General Fund | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 14,141,702 | $ - | $ 3,406,818 | $ 17,548,520 |
| Taxes receivable | 2,353,048 | 13,115 | 583,552 | 2,949,715 |
| Due from other funds | 12,041,410 | - | - | 12,041,410 |
| Due from other governmental agencies | 2,726,983 | 263,785 | 541,059 | 3,531,827 |
| Inventories | - | - | 359,583 | 359,583 |
| Other assets | 293,782 | - | - | 293,782 |
| Total assets | $ 31,556,925 | $ 276,900 | $ 4,891,012 | $ 36,724,837 |
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES** | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued liabilities | $ 9,125,092 | $ - | $ 288,715 | $ 9,413,807 |
| Due to other funds | - | 11,719,606 | 321,804 | 12,041,410 |
| Unearned revenue | - | - | 112,959 | 112,959 |
| Total liabilities | 9,125,092 | 11,719,606 | 723,478 | 21,568,176 |
| Deferred inflows of resources: | | | | |
| Unavailable tax revenue | 1,855,480 | 10,407 | 460,071 | 2,325,958 |
| Fund balances: | | | | |
| Nonspendable | | | | |
| Inventory | - | - | 359,583 | 359,583 |
| Other assets | 293,782 | - | - | 293,782 |
| Restricted | | | | |
| Debt service | - | - | 3,439,848 | 3,439,848 |
| Assigned | - | - | 76,263 | 76,263 |
| Unassigned | 20,282,571 | (11,453,113) | (168,231) | 8,661,227 |
| Total fund balances | 20,576,353 | (11,453,113) | 3,707,463 | 12,830,703 |
| Total liabilities, deferred inflows of resources, and fund balances | $ 31,556,925 | $ 276,900 | $ 4,891,012 | $ 36,724,837 |

See Notes to the Financial Statements

**MINOT PUBLIC SCHOOL DISTRICT NO. 1**
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
DISTRICT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2018

| | |
|---|---|
| Total fund balance, governmental funds | $ 12,830,703 |
| 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. | 163,778,766 |
| Certain assets are not available to pay current period expenditures and therefore are not reported in the fund financial statement, but are reported in the governmental activities of the Statement of Net Position. | 6,298,953 |
| Property taxes receivable will be collected during the year, but are not available soon enough to pay for the current period's expenditures, and, therefore are unavailable in the governmental funds. | 2,325,958 |
| The assets and liabilities of internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position. | 3,523,378 |
| Net deferred outflows/(inflows) of resources relating to the cost sharing of defined benefit plans in the governmental activities that are not financial resources, and therefore are not reported as deferred outflows/(inflows) of resources in the governmental funds. | |
| Deferred inflow - pension | (3,770,840) |
| Deferred outflow - pension | 27,414,341 |
| Deferred inflow - OPEB | (88,838) |
| Deferred outflow - OPEB | 322,210 |
| Certain short-term liabilities are not recognized as an expenditure in the govermental funds until they are due. All liabilities both current and long-term are reported in the Statement of Net Position. | (624,217) |
| Certain long-term liabilities are not due and payable in the current period, and therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of: | |
| Net pension liability | (118,228,799) |
| Net OPEB liability | (1,245,058) |
| Bond Premium | (105,380) |
| Bonds payable, accrued interest, and unamortized bond premium | (59,258,394) |
| Net position of governmental activities in the Statement of Net Position | $ 33,172,783 |

See Notes to the Financial Statements

**MINOT PUBLIC SCHOOL DISTRICT NO. 1**
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

| | General Fund | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Local sources | | | | |
| Property taxes | $ 19,125,279 | $ 106,121 | $ - | $ 19,231,400 |
| Other local sources | 10,680,243 | 64,543 | 7,160,735 | 17,905,521 |
| County sources | 687,500 | - | - | 687,500 |
| State sources | 62,073,125 | 344,029 | 329,841 | 62,746,995 |
| Federal sources | 5,832,674 | 2,626,472 | 5,782,320 | 14,241,466 |
| Total revenues | 98,398,821 | 3,141,165 | 13,272,896 | 114,812,882 |
| **EXPENDITURES** | | | | |
| Instruction: | | | | |
| Regular | 41,654,822 | - | - | 41,654,822 |
| Special education | 14,764,502 | - | - | 14,764,502 |
| Vocational education | 2,854,938 | - | - | 2,854,938 |
| Federal | 4,483,041 | - | - | 4,483,041 |
| Total instruction | 63,757,303 | - | - | 63,757,303 |
| Tuition: | 1,335,904 | - | - | 1,335,904 |
| Support services: | | | | |
| Pupil services | 2,964,174 | - | - | 2,964,174 |
| Instructional staff services | 3,278,685 | - | - | 3,278,685 |
| General administration services | 3,987,617 | - | - | 3,987,617 |
| School administration services | 6,360,153 | - | - | 6,360,153 |
| Business services | 621,473 | - | - | 621,473 |
| Operations and maintenance | 8,924,405 | 925,451 | - | 9,849,856 |
| Pupil transportation services | 2,018,720 | - | - | 2,018,720 |
| Lease payments | 1,248 | - | - | 1,248 |
| Head start | - | - | 3,759,607 | 3,759,607 |
| Adult learning center | - | - | 415,387 | 415,387 |
| Other | - | - | 4,015 | 4,015 |
| Total support services | 28,156,475 | 925,451 | 4,179,009 | 33,260,935 |

See Notes to the Financial Statements

# MINOT PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – GOVERNMENTAL FUNDS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2018

| | General Fund | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| Debt service: | | | | |
| Principal | $ - | $ - | $ 3,594,751 | $ 3,594,751 |
| Interest | - | - | 1,487,225 | 1,487,225 |
| Total debt service | - | - | 5,081,976 | 5,081,976 |
| Non-education services: | | | | |
| Enterprise services | 352,906 | - | - | 352,906 |
| Food service | - | - | 4,860,516 | 4,860,516 |
| Community services | 2,219,978 | - | - | 2,219,978 |
| Extra curricular | 1,745,856 | - | - | 1,745,856 |
| Services provided another LEA | 155,145 | - | - | 155,145 |
| Total non education services | 4,473,885 | - | 4,860,516 | 9,334,401 |
| Capital outlays | 1,323,531 | 282,500 | 28,094 | 1,634,125 |
| Total expenditures | 99,047,098 | 1,207,951 | 14,149,595 | 114,404,644 |
| Excess of revenues over (under) expenditures | (648,277) | 1,933,214 | (876,699) | 408,238 |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Proceeds from sale of capital assets | 92,500 | 370,000 | - | 462,500 |
| Transfers in | - | 801 | 1,379,335 | 1,380,136 |
| Transfers out | (1,254,365) | - | (125,771) | (1,380,136) |
| Total other financing sources and uses | (1,161,865) | 370,801 | 1,253,564 | 462,500 |
| Net change in fund balances | (1,810,142) | 2,304,015 | 376,865 | 870,738 |
| Fund balances - beginning - as originally stated | 22,386,495 | (13,757,128) | 2,991,628 | 11,620,995 |
| Prior period adjustment - See Note 18 | - | - | 338,970 | 338,970 |
| Fund balance - beginning - as restated | 22,386,495 | (13,757,128) | 3,330,598 | 11,959,965 |
| Fund balances - ending | $ 20,576,353 | $ (11,453,113) | $ 3,707,463 | $ 12,830,703 |

See Notes to the Financial Statements

**MINOT PUBLIC SCHOOL DISTRICT NO. 1**

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

| | | |
|---|---|---|
| Net change in fund balances - total governmental funds: | $ | 870,738 |
| 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 depreciation of $5,597,230 exceeded capital outlay of $1,634,125 in the current period. | | (3,963,105) |
| 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 cost of the asset sold. | | (915,840) |
| Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. This amount is the net change in these items which include property taxes receivable and amounts due from | | (1,320,792) |
| 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. | | 3,594,751 |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds: | | |
| Net change in accrued interest | | (415,463) |
| Net change in compensated absences and early retirement obligations | | 91,177 |
| Net change in net pension liability | | (4,592,108) |
| Net change in OPEB liability | | 4,713 |
| Changes in deferred inflows relating to net pension liability | | (537,552) |
| Changes in deferred outflows relating to net pension liability | | (604,360) |
| Changes in deferred inflows relating to OPEB liability | | (88,838) |
| Changes in deferred outflows relating to OPEB liability | | 124,544 |
| Internal service funds are used by the District to account for its self funded health insurance plan. The net income or loss of the internal service fund is reported with governmental activities. | | (391,335) |
| Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activites. This is the amount by which current year amortization exceeds premiums and discounts. | | 41,908 |
| Change in net position of governmental activities | $ | (8,101,562) |

See Notes to the Financial Statements

**MINOT PUBLIC SCHOOL DISTRICT NO. 1**
STATEMENT OF NET POSITION – PROPRIETARY FUND
JUNE 30, 2018

| | Internal Service Fund |
|---|---|
| **ASSETS** | |
| Current assets: | |
| Cash and cash equivalents | $ 4,371,378 |
| **LIABILITIES** | |
| Current liabilities: | |
| Incurred but not reported claims | $ 848,000 |
| **NET POSITION** | |
| Unrestricted | $ 3,523,378 |

See Notes to the Financial Statements

**MINOT PUBLIC SCHOOL DISTRICT NO. 1**
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2018

| | Internal Service Fund |
|---|---|
| **REVENUES** | |
| Premium revenue | $ 11,371,980 |
| HSA contributions | 2,279,220 |
| | 13,651,200 |
| **OPERATING EXPENSES** | |
| Stop loss premiums and administrative fees | 4,957,369 |
| Insurance claims | 9,513,996 |
| Total operating expenses | 14,471,365 |
| Operating income (loss) | (820,165) |
| **NON-OPERATING REVENUES** | |
| Interest and investment revenue | 428,830 |
| Change in net position | (391,335) |
| Total net position - beginning of year | 3,914,713 |
| Total net position - end of year | $ 3,523,378 |

See Notes to the Financial Statements

**MINOT PUBLIC SCHOOL DISTRICT NO. 1**
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2018

| | Internal Service Fund |
|---|---|
| Cash flows from operating activities | |
| Cash received from charges to other funds | $ 13,651,200 |
| Cash paid to insurance claims and stop loss premiums | (14,481,365) |
| Net cash provided (used) by operating activities | (830,165) |
| | |
| Cash flows from investing activities | |
| Interest on investments | 428,830 |
| Net cash provided by investing activities | 428,830 |
| | |
| Net change in cash and cash equivalents | (401,335) |
| Cash and cash equivalents - beginning of year | 4,772,713 |
| Cash and cash equivalents - end of year | $ 4,371,378 |
| | |
| Reconciliation of operating loss to net cash provided (used) by operating activities: | |
| | |
| Operating income (loss) | $ (820,165) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | |
| Change in assets and liabilities: | |
| Accounts payable and accrued liabilities | (10,000) |
| Net cash used by operating activities | $ (830,165) |

See Notes to the Financial Statements

**MINOT PUBLIC SCHOOL DISTRICT NO. 1**
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS
JUNE 30, 2018

| | Agency Funds |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents | $ 1,733,240 |
| Accounts receivable | 182,922 |
| Total assets | $ 1,916,162 |
| **LIABILITIES** | |
| Due to student activity groups/starbase/cooperative | $ 1,916,162 |

See Notes to the Financial Statements

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

### Principal Activity

The Minot Public School District operates the public schools in the City of Minot, North Dakota. There are twelve elementary schools, three middle schools and two high schools. Two elementary schools and one middle school are located on the Minot Air Force Base, a U.S. Air Force installation.

### Reporting Entity

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

Based on the above criteria, the Minot Air Force Base District No. 160 is included in the District's reporting entity as a discretely presented component unit, and the Minot School District Building Authority is included as a blended component unit.

The Minot Air Force Base School District No. 160 contracts with the Minot Public School District to provide educational services for the pupils that reside in the Minot Air Force Base District. A copy of the Minot Air Base District No. 160 financial statements may be obtained through a request of the District's management.

The Minot School District Building Authority leases various facilities and capital improvements to the Minot Public School District. The Building Authority does not prepare external financial statements.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. Minot Public School District No. 1's significant accounting policies are described below.

### Basis of Presentation

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

Government-wide Financial Statements

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

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

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

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. The fiduciary fund is reported by type.

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

Governmental Funds

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

*Capital projects fund* – This fund accounts for the acquisition and construction of the District's major capital facilities.

Proprietary Funds

The reporting focus of proprietary funds is on the determination of net income, financial position, and changes in financial position (economic resources). These funds are used to account for activities which are similar to those found in the private sector. The funds are maintained on the accrual basis of accounting.

The District has one fund that qualifies for reporting under this category which is also an internal service fund. The reporting focus of internal service funds is on services provided by one fund of the District to another fund on a cost reimbursement basis. The District's internal service fund is as follows:

*Self-funded Health Insurance Fund* – The fund accounts for the financial transactions related to the District's self-funded health insurance plan.

Fiduciary Funds

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

*Student Activity Fund* – The fund accounts for the financial transactions related to the District's student activity programs.

*Starbase Fund* – The fund accounts for the financial transactions related to the Starbase programs.

*Mid-Dakota Education Cooperative* – The fund accounts for the financial transactions related to the Mid-Dakota Education Cooperative.

**Measurement Focus and Basis of Accounting**

Measurement Focus

*Government-wide Financial Statements:*

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

*Fund Financial Statements:*

The governmental funds are accounted for using a flow of current financial resources measurement focus. Under this measurement focus, only current assets, current liabilities and current deferred outflows/inflows of resources are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance reports on the sources and uses of current financial resources.

The current financial resources measurement focus differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Due to the difference, 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.

Basis of Accounting

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

Government-wide financial statements are prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The District's internal service fund also uses the accrual basis of accounting.

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

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

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

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

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

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

**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.

### Due from Other Governmental Agencies

Intergovernmental receivables consist of reimbursements due for expenses in the operation of various programs, credits from the State and federal dollars in regards to flood reimbursements. The amount consists of a mix of state and federal dollars. Management has set up an allowance of $800,000 which it feels may not be collectible in relation to prior year flood reimbursements they continue to collect on.

### Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. They are stated at cost determined on a first-in, first-out basis. They are recorded as expenditures at the time individual inventory items are used.

### Other Assets

The District's other assets as of June 30, 2018 consist of construction houses and associated lots built by students which are held for sale.

### 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 acquisition 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. Interest associated with construction in progress is capitalized as part of the asset's original cost. 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:

| | |
|---|---|
| Land Improvements | 20 years |
| Buildings and Improvements | 50 years |
| Equipment and Furniture | 5 to 20 years |

### Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. Although employees accrue sick leave on an annual basis, this accrual vests only if the employee is eligible for and elects to take advantage of the District's early retirement policy. The liability includes the employees who are currently eligible to receive termination benefits. The amount is based on accumulated sick leave and employees wage rates at fiscal year-end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave upon notification of the employee's election for early retirement. These liabilities qualify for recognition on both the fund and government wide statements, and are shown under accounts payable and accrued liabilities.

**Unearned Revenue**

Unearned revenue amounts represent funds received by the food service fund for which the obligation to provide meals to children has not yet been met.

**Long-Term Debt**

In the District-wide financial statements, long-term debt and other long-term debt obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Net Pension Liability**

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

**Net OPEB Liability**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the North Dakota Public Employee Retirement System (NDPERS) and additions to/deduction from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items reported on the statement of net position as deferred pension outflows, one which represents the actuarial differences within the NDPERS and TFFR pension plans, and another that represents the actuarial differences within the NDPERS OPEB liability. See notes 10 and 11 for further details.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items which qualify for reporting in this category. One of the items, unavailable revenue – delinquent taxes, is reported only in the governmental funds balance sheet. This amount, which is from delinquent property taxes, is deferred and recognized as an inflow of resources in the period that the amount becomes available. The other item is reported on the statement of net position as deferred pension inflows, which represents the actuarial differences within the NDPERS and TFFR pensions as well as amounts paid to the plan after the measurement date. The last item is reported on the statement of net position as deferred OPEB inflows, which represents the actuarial differences within the NDPERS OPEB liability. See notes 10 and 11 for further details.

### Net Position

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

### 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 other assets.

*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 Public Instruction.

*Committed* - consists of internally imposed constraints. These constraints are established by Resolution of the School Board.

*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.

*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. Interfund activities within the District's governmental activities and its business–type activities are eliminated in the Statement of Activities.

**Revenue Recognition**

Taxes receivable consists of current and delinquent uncollected taxes at June 30, 2018.

Property taxes attach as an enforceable lien on property January 1. A five percent reduction is allowed if paid by February 15. Penalty and interest are added March 15 if the first half of the taxes 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 tax revenue in the governmental funds is recognized in compliance with National Council of Government Accounting (NCGA) Interpretation 3, "Revenue Recognition - Property Taxes". This interpretation states that property tax revenue is recorded when it becomes available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Property tax revenue is recorded as revenue in the year the tax is levied in the government - wide financial statements. Property taxes are limited by state laws. All school district tax levies are in compliance with state laws.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges to other funds for health insurance premiums. Operating expenses for the internal service fund include the cost of claims and related administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expense.

### Expenses and Expenditures

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

### Estimates

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

As discussed in note 13, the District has established a self-funded health insurance plan. Because of the inherent uncertainties associated with estimating the accrued liability for claims, it is at least reasonably possible that the estimate used will change within the near term.

### Implementation of New Accounting Principle

The District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* during the year ended June 30, 2018. GASB Statement No. 75 addresses accounting and financial reporting for OPEB that is provided to state and local government employers. This statement established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense related to OPEB. In addition, for defined benefit plans, this statement identifies the methods and assumptions that should be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

## NOTE 3 DEPOSITS

Custodial Credit Risk:
This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its deposits, investments, or collateral securities that are in possession of an outside party.

According to state statutes, deposits must be 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 may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

The District has a deposit policy which requires all cash accounts to be kept at local banks.

The District maintains cash on deposit at various financial institutions. The amounts on deposit were insured by the FDIC up to $250,000 per applicable financial institution. At June 30, 2018, none of the District’s deposits were exposed to custodial credit risk, as all deposits were covered by FDIC coverage and pledged collateral through local financial institutions. $26,845,826 of the District’s deposits are covered by pledged securities held in the District’s name.

## NOTE 4 DUE FROM OTHER GOVERNMENTAL AGENCIES

The following table represents a detailed breakdown of the amounts due from other governmental agencies as shown on the Statement of Net Position as of June 30, 2018:

**Minot Public School District No. 1**

| | |
|---|---|
| General fund | |
| In-state LEAs | $ 618,960 |
| Department of Public Instruction | 2,022,172 |
| Department of Career and Tech | 1,048 |
| Other | 84,803 |
| Total general fund | 2,726,983 |
| Capital projects | |
| FEMA (net of $800,000 allowance) | 6,562,738 |
| Other governmental funds | |
| Department of Public Instruction | 346,776 |
| Headstart | 194,283 |
| Total other governmental funds | 541,059 |
| Total due from other governmental agencies | $ 9,830,780 |

**Minot Air Force Base District No. 160 (Component Unit)**

| | |
|---|---|
| Department of Defense | $ 219,852 |
| Department of Education | 823,730 |
| Total due from other governmental agencies | $ 1,043,582 |

## NOTE 5 INTERFUND RECEIVABLES/PAYABLES

The District's interfund receivables and payables consisted of the following as of June 30, 2018:

| Fund | Due From | Due To | |
|---|---|---|---|
| General Fund | $ 12,041,410 | $ - | |
| Capital Projects | - | 11,719,606 | (1) |
| Other Governmental Funds | - | 321,804 | (2) |
| | $ 12,041,410 | $ 12,041,410 | |

(1) The General Fund has recorded a due from the Capital Projects Fund for $11,719,606 to offset a negative cash balance. This is not expected to be repaid within the next year.

(2) The General Fund has recorded a due from the Special Revenue Fund for Head Start and Adult Learning Center for $321,804 to offset a negative cash balance. This is expected to be repaid within a couple months after year end.

## NOTE 6 FUND DEFICITS

The following funds were in a deficit position as of June 30, 2018:

| | |
|---|---|
| Governmental Funds: | |
| Head Start and Adult Learning Center | $ 168,231 |
| Capital Projects - MPSD | 11,453,113 |

These deficits are anticipated to be remediated by future revenues and/or fund transfers.

## NOTE 7 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

| | 7/1/2017 | Additions | Deductions | 6/30/2018 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 4,725,335 | $ - | $ (100,000) | $ 4,625,335 |
| Construction in Progress | 139,377 | 106,250 | (139,377) | 106,250 |
| Total capital assets not being depreciated | 4,864,712 | 106,250 | (239,377) | 4,731,585 |
| Capital assets being depreciated | | | | |
| Land improvements | 29,389,971 | 476,515 | (1,067,892) | 28,798,594 |
| Building and improvements | 175,182,291 | 635,834 | (138,000) | 175,680,125 |
| Equipment and furniture | 17,119,315 | 554,903 | (1,750,132) | 15,924,086 |
| Total capital assets at historical cost | 221,691,577 | 1,667,252 | (2,956,024) | 220,402,805 |
| Less accumulated depreciation | | | | |
| Land improvements | 8,333,653 | 1,364,892 | (371,877) | 9,326,668 |
| Building and improvements | 36,143,266 | 3,446,500 | (16,560) | 39,573,206 |
| Equipment and furniture | 13,392,689 | 785,838 | (1,722,777) | 12,455,750 |
| Total accumulated depreciation | 57,869,608 | 5,597,230 | (2,111,214) | 61,355,624 |
| Total capital assets being depreciated, net | 163,821,969 | (3,929,978) | (844,810) | 159,047,181 |
| | $ 168,686,681 | $ (3,823,728) | $ (1,084,187) | $ 163,778,766 |

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

| | |
|---|---|
| Instruction: | |
| Regular | $4,931,379 |
| Special education | 29,217 |
| Support services: | |
| Instruction staff services | 125,502 |
| General administrative services | 36,798 |
| Head Start | 3,718 |
| Operations and maintenance | 194,067 |
| Pupil transportation services | 195,085 |
| Non-education services: | |
| Extracurricular | 45,713 |
| Food service | 35,751 |
| Total | $5,597,230 |

## NOTE 8 ACCOUNTS PAYABLE

The following table represents a detailed breakdown of the amounts in accounts payable and accrued liabilities as shown on the Statement of Net Position as of June 30, 2018:

**Minot Public School District No. 1**

| | |
|---|---|
| Trade Payables | |
| General fund | $ 907,004 |
| Other funds | 20,003 |
| Total trade payables | 927,007 |
| Accrued Salaries & Benefits | |
| General fund | 8,218,088 |
| Other funds | 268,712 |
| Total accrued salaries & benefits | 8,486,800 |
| Internal Service Fund | |
| Incurred but not reported claims | 848,000 |
| Total accounts payable and accrued liabilities | $ 10,261,807 |

**Minot Air Force Base District No. 160 (Component Unit)**

| | |
|---|---|
| Trade Payables | $ 18,396 |

## NOTE 9 LONG TERM DEBT

### Changes in Long-Term Liabilities

| | Balance July 1, 2017 (Restated) | Increases | Decreases | Balance June 30, 2018 | Due Within One Year |
|---|---|---|---|---|---|
| Compensated absences * | $ 715,394 | $ 477,709 | $ (568,886) | $ 624,217 | $ 624,217 |
| Net pension liability ** | 113,636,691 | 42,611,596 | (38,019,488) | 118,228,799 | - |
| Net OPEB liability *** | 1,249,771 | 425,958 | (430,671) | 1,245,058 | - |
| Bonds payable | 61,300,483 | - | (3,594,752) | 57,705,731 | 3,678,739 |
| Bond premium | 896,310 | - | (41,908) | 854,402 | 105,380 |
| Total | $ 177,798,649 | $ 43,515,263 | $ (42,655,705) | $ 178,658,207 | $ 4,408,336 |

* The general fund is primarily used to liquidate compensated absences.

** See Note 10 for more information on the net pension liability. The general fund would liquidate any liability owed.

*** See Note 11 for more information on the net OPEB liability. The general fund would liquidate any liability owed.

**Lease Revenue Refunding Bonds of 2011** – The bonds were issued to refinance the Lease Revenue Bonds of 2003. The bonds carry interest rates of 1.75% to 2.85% and are scheduled to mature in May 2023. Payments are to be made out of the Sinking and Interest fund. Outstanding obligation as of June 30, 2018 was $1,330,000.

**General Obligation School Building Bonds, Series 2011** – The District issued $7,000,000 of general obligation bonds for the purpose of financing the purchase of land and constructing a new middle school, new additions to Lewis and Clark and Longfellow elementary schools, and to repair, renovate and improve school buildings and property. The bonds carry interest rates of 2.000% to 3.125% and are scheduled to mature in 2032. Payments are to be made out of the Sinking and Interest fund. Outstanding obligation as of June 30, 2018 was $7,000,000. Includes discount of $5,381.

**General Obligation School Building Bonds, Series 2012B** – The District issued $10,000,000 of general obligation bonds for the purpose of financing the purchase of land and constructing a new middle school, new additions to Lewis and Clark and Longfellow elementary schools, and to repair, renovate and improve school buildings and property. The bond carries an interest rate of 2.57% and is scheduled to mature in 2032. Payments are to be made out of the Sinking and Interest fund. Outstanding obligation as of June 30, 2018 was $7,512,590.

**General Obligation School Building Bonds, Series 2014** – The District issued $9,945,000 of general obligation bonds for the purpose of financing the construction of a new elementary school, new additions to Edison and Perkett elementary schools, and to repair, renovate and improve school buildings and property. The bond carries an interest rate of 2.75%-3.50% and is scheduled to mature in 2034. Payments are to be made out of the Sinking and Interest fund. Outstanding obligation as of June 30, 2018 was $9,945,000. Includes premium of $42,875.

**General Obligation School Building Bonds, Series 2014B** – The District issued $20,000,000 of general obligation bonds for the purpose of financing school improvement construction projects. The bond carries an interest rate of 1.72% and is scheduled to mature in 2034. Payments are to be made out of the Sinking and Interest fund. Outstanding obligation as of June 30, 2018 was $16,518,142.

**General Obligation School Building Bonds, Series 2015** – The District issued $9,205,000 of general obligation bonds for the purpose of financing the construction of a new elementary school, new additions to Edison and Perkett elementary schools, and to repair, renovate and improve school buildings and property. The bond carries an interest rate of 2.00%-4.00% and is scheduled to mature in 2025. Payments are to be made out of the Sinking and Interest fund. Outstanding obligation as of June 30, 2018 was $7,595,000. Includes premium of $475,944.

**General Obligation School Building Bonds, Series 2016A –** The District issued $5,260,000 of general obligation bonds for the purpose of constructing, repairing, renovating and improving school property resulting from the flood of 2011. The bond carries an interest rate of 2.00%-3.00% and is scheduled to mature in 2026. Payments are to be made out of the Sinking and Outstanding obligation as of June 30, 2018 was $4,800,000. Interest fund. Includes premium of $284,544.

**Lease Revenue Refunding Bonds, Series 2016B –** The District issued $3,310,000 in bonds to be used for the purpose of refunding the Lease Revenue Bonds of 2007. The bond carries an interest rate of 2.00% and is scheduled to mature in 2026. Payments are to be made out of the Sinking and Interest fund. Outstanding obligation as of June 30, 2018 was $3,005,000. Includes premium of $56,420.

Following is a schedule of the future expected principal and interest requirements to retire the long-term debt obligations as of June 30, 2018:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2019 | $ 3,678,739 | $ 1,401,582 | $ 5,080,321 |
| 2020 | 3,765,946 | 1,313,126 | 5,079,072 |
| 2021 | 3,853,731 | 1,221,659 | 5,075,390 |
| 2022 | 3,957,095 | 1,131,942 | 5,089,037 |
| 2023 | 8,301,051 | 1,043,749 | 9,344,800 |
| 2024 - 2028 | 16,056,223 | 3,725,053 | 19,781,276 |
| 2029 - 2033 | 13,310,926 | 1,711,575 | 15,022,501 |
| 2034 - 2035 | 4,782,020 | 106,841 | 4,888,861 |
| Premium | 854,402 | (854,402) | - |
| Total | $ 58,560,133 | $ 10,801,125 | $ 69,361,258 |

## NOTE 10 DEFINED BENEFIT PENSION PLANS - STATEWIDE

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

Disclosures relating to these plans follow:

### NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

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

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

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

***Pension Benefits***

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

*Tier 1 Grandfathered*

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

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

*Tier 1 Non-grandfathered*

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

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

*Tier 2*

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

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

**Death and Disability Benefits**

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

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

**Member and Employer Contributions**

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

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70½. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

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

At June 30, 2018, the District reported a liability of $91,417,617 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At June 30, 2017, the Employer's proportion was 6.66557 percent, which was a decrease of 0.049687 percent from its proportionate measured as of June 30, 2016.

For the year ended June 30, 2018, the Employer recognized pension expense of $8,324,115. At June 30, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 350,651 | $ (997,951) |
| Changes of assumptions | 6,515,907 | - |
| Net difference between projected and actual earnings on pension plan investments | 1,262,734 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | (2,037,544) |
| Employer contributions subsequent to the measurement date | 5,674,143 | - |
| Total | $ 13,803,435 | $ (3,035,495) |

$5,674,143 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

| **Year ended June 30:** | | |
|---|---|---|
| 2019 | $ | 1,101,972 |
| 2020 | | 3,082,624 |
| 2021 | | 1,842,531 |
| 2022 | | (333,028) |
| 2023 | | (411,434) |
| Thereafter | | (188,868) |

**Actuarial assumptions**

The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

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

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Global Equities | 58% | 6.70% |
| Global Fixed Income | 23% | 0.80% |
| Global Real Assets | 18% | 5.20% |
| Cash Equivalents | 1% | 0.00% |

**Discount rate**

The discount rate used to measure the total pension liability was 7.75% percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2017, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

**Pension Liability Sensitivity**

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

| | **1% Decrease (6.75%)** | **Current Discount Rate (7.75%)** | **1% Increase (8.75%)** |
|---|---|---|---|
| Employer's proportionate share of the net pension liability | $ 121,541,342 | $ 91,417,617 | $ 66,340,523 |

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued TFFR financial 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 following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

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

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

### *Pension Benefits*

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

### *Death and Disability Benefits*

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

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

***Refunds of Member Account Balance***

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

***Member and Employer Contributions***

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

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

1 to 12 months of service – Greater of one percent of monthly salary or $25
13 to 24 months of service – Greater of two percent of monthly salary or $25
25 to 36 months of service – Greater of three percent of monthly salary or $25
Longer than 36 months of service – Greater of four percent of monthly salary or $25

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

At June 30, 2018, the Employer reported a liability of $26,811,182 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2017, the Employer's proportion was 1.668059 percent which was an increase of 0.088023 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Employer recognized pension expense of $4,262,673. At June 30, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 159,364 | $ (130,629) |
| Changes of assumptions | 10,994,393 | (604,716) |
| Net difference between projected and actual earnings on pension plan investments | 360,588 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 837,324 | - |
| Employer contributions subsequent to the measurement date | 1,259,237 | - |
| Total | $ 13,610,906 | $ (735,345) |

$1,259,237 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

| **Year ended June 30:** | |
|---|---|
| 2019 | $ 2,541,636 |
| 2020 | 3,036,408 |
| 2021 | 2,661,306 |
| 2022 | 2,210,498 |
| 2023 | 1,166,476 |

***Actuarial assumptions***

The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | | |
|---|---|---|
| Inflation | 2.50% | |
| Salary increases | Service at Beginning of Year: | Increase Rate: |
| | 0 | 15.00% |
| | 1 | 10.00% |
| | 2 | 8.00% |
| | Age* | |
| | Under 36 | 8.00% |
| | 36 - 40 | 7.50% |
| | 41 - 49 | 6.00% |
| | 50+ | 5.00% |

*Age-based salary increase rates apply for employees with three or more years of service

| | |
|---|---|
| Investment rate of return | 7.75%, net of investment expenses |
| Cost-of-living adjustments | None |

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

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Domestic Equity | 31% | 6.05% |
| International Equity | 21% | 6.70% |
| Private Equity | 5% | 10.20% |
| Domestic Fixed Income | 17% | 1.43% |
| International Fixed Income | 5% | -0.45% |
| Global Real Assets | 20% | 5.16% |
| Cash Equivalents | 1% | 0.00% |

***Discount rate***

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

The pension plan’s fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56%; and the resulting Single Discount Rate is 6.44%.

***Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate***

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 6.44 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

| | 1% Decrease (5.44%) | Current Discount Rate (6.44%) | 1% Increase (7.44%) |
|---|---|---|---|
| Employer's proportionate share of the net pension liability | $ 36,397,001 | $ 26,811,182 | $ 18,836,181 |

***Pension plan fiduciary net position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. Requests to obtain or review this report should be addressed to the Executive Director – NDPERS, P.O. Box 1657, Bismarck, North Dakota 58502-16573

## NOTE 11 OTHER POST EMPLOYMENT BENEFITS

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

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

### OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as *"prefunded credit applied"* on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The benefits are equal to $5.00 for each of the employee’s, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

### *OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*

At June 30, 2018, the Employer reported a liability of $1,245,058 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net OPEB liability was based on the Employer's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2017, the Employer's proportion was 1.574009 percent.

For the year ended June 30, 2018, the Employer recognized OPEB expense of $148,294. At June 30, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ (30,366) |
| Changes of assumptions | 120,591 | - |
| Net difference between projected and actual earnings on pension plan investments | - | (47,075) |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | (11,397) |
| Employer contributions subsequent to the measurement date | 201,619 | - |
| Total | $ 322,210 | $ (88,838) |

$201,619 reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

| **Year ended June 30:** | |
|---|---|
| 2019 | $ 571 |
| 2020 | 571 |
| 2021 | 571 |
| 2022 | 571 |
| 2023 | 12,340 |
| 2024 | 12,340 |
| Thereafter | 4,789 |

### *Actuarial assumptions*

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 2.50% |
| Salary increases | Not applicable |
| Investment rate of return | 7.50%, net of investment expenses |
| Cost-of-living adjustments | None |

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

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2017 are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Large Cap Domestic Equities | 37.00% | 5.80% |
| Small Cap Domestic Equities | 9.00% | 7.50% |
| International Equities | 14.00% | 6.20% |
| Core-Plus Fixed Income | 40.00% | 1.56% |

### *Discount rate*

The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2017, and July 1, 2016, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

***Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate***

The following presents the net OPEB liability of the Plans as of June 30, 2017, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

| | 1% Decrease 6.50% | Current Discount Rate 7.50% | 1% Increase 8.50% |
|---|---|---|---|
| Employer's proportionate share of the net pension liability | $ 1,558,661 | $ 1,245,058 | $ 976,245 |

## NOTE 12 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, 2018 was $293,824.

## NOTE 13 RISK MANAGEMENT

The District is exposed to various risks related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the mid-1980's, the District was not able to obtain general liability insurance at a cost it considered to be economically justifiable. In 1986, the state and other political subdivisions 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.

All members paid an additional charge the first year they joined to help capitalize the NDIRF. In each of the years from 1991 through 1994, the NDIRF returned 20% of the capitalized amount with a premium reduction or cash payment to the District. The District pays an annual premium to NDIRF for its general, business and auto insurance coverage. The coverage by NDIRF is limited to losses of $2,000,000 per occurrence. In the past three years, no settled claims have exceeded insurance coverage.

In October of 1996, the District entered into a self-funding health insurance plan with Blue Cross Blue Shield. Under the plan, the District is liable for individual claims up to $100,000 stop loss limit per participant. As of June 30, 2018, the District has accrued an estimated claims liability of $848,000. The estimated liability is based upon information provided by insurance carrier, which the District believes is a reasonable basis for determining unpaid claims as of June 30, 2018. The following is a recap of the District's claims:

| | |
|---|---|
| Claim liability as of July 1, 2017 | $ 858,000 |
| Claims incurred | 9,513,995 |
| Claims paid | (9,523,995) |
| Claim liability as of June 30, 2018 | $ 848,000 |

The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

## NOTE 14 TRANSFERS

The following is a summary of transfers for the year ended June 30, 2018:

| | General Fund | Capital Projects | Other Funds - Nonmajor | Total |
|---|---|---|---|---|
| Transfers in | $ - | $ 801 | $ 1,379,335 | $ 1,380,136 |
| Transfers out | (1,254,365) | - | (125,771) | (1,380,136) |
| | $ (1,254,365) | $ 801 | $ 1,253,564 | $ - |

The transfers were to supplement the food service program, close out no longer used special revenue funds, and transfer amounts to be used for debt service.

## NOTE 15 FUND BALANCES

At June 30, 2018, a summary of the governmental fund balance classification is as follows:

| | General Fund | Capital Projects - MPSD | Other Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| Non-spendable: | | | | |
| Inventories | $ - | $ - | $ 359,583 | $ 359,583 |
| Other assets | 293,782 | - | - | 293,782 |
| Restricted: | | | | |
| Debt service | - | - | 3,439,848 | 3,439,848 |
| Assigned: | | | | - |
| Food service | - | - | 76,263 | 76,263 |
| Unassigned | 20,282,571 | (11,453,113) | (168,231) | 8,661,227 |
| | $ 20,576,353 | $ (11,453,113) | $ 3,707,463 | $ 12,830,703 |

## NOTE 16 CONTINGENCIES

The District received financial assistance from federal and state agencies in the form of grants. The expenditure 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 or other applicable funds. The District's management believes it has complied with all applicable grant provisions. In the opinion of management, any possible disallowed claim would not have a material adverse effect on the overall financial position of the District as of June 30, 2018.

## NOTE 17 ECONOMIC DEPENDENCY

Minot Public School District No. 1 receives a substantial amount of its support from federal and state governments. A significant reduction in the level of this support, if this were to occur, may have a material effect on the District’s programs and therefore on its continued operations.

## NOTE 18 PRIOR PERIOD ADJUSTMENT

During the current year, the District adjusted its July 1, 2017 financial statements to properly record the timing of a debt payment made to the Bank of North Dakota by the Minot School District Building Authority. The adjustment resulted in an increase to opening fund balance of $338,970 on the governmental funds due to an increase in cash when properly reflecting the timing of the payment. This adjustment had no effect on the net position in the government wide statements, but did result in a restatement of opening cash and bonds payable balances that offset.

## NOTE 19 GASB 75 ADJUSTMENT

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, which required a prior period adjustment to net OPEB liability and related deferred outflows as of July 1, 2017. The cumulative effect of implementing this GASB statement was an increase in net OPEB liability of $1,249,771 and increase of deferred outflows - OPEB of $197,666 on the Statement of Net Position. The adjustments resulted in a decrease of $1,052,105 in net position on the Statement of Activities.

## NOTE 20 RECLASSIFICATION OF COMPONENT UNIT

During the year ended June 30, 2018, the District re-assessed its evaluation of Minot Air Force Base District No. 160 as being a potential component unit. It was determined that the Minot Air Force Base District No. 160 should be treated going forward as a discretely presented component unit, and not a blended component unit as in the past. The reclassification resulted in a decrease of net position to the governmental activities and governmental fund balances of $7,512,526, and an increase to component unit net position on the Statement of Net Position of the same amount. The reclassification also resulted in a decrease of assets and liabilities in the governmental activities of $7,527,677 and $15,151, respectively, with increases to the component unit assets and liabilities on the Statement of Net Position of the same amount.

## NOTE 21 RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements in order for them to conform to the current year presentation.

## NOTE 22 FUTURE PRONOUNCEMENTS

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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

## NOTE 23 SUBSEQUENT EVENTS

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through January 18, 2019, which is the date these financial statements were available to be issued.

**MINOT PUBLIC SCHOOL DISTRICT NO. 1**
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
JUNE 30, 2018

| | Budgeted Amounts, Original and Final | Actual Amounts, Budgetary Basis | Variance with Final Budget - Positive (Negative) |
|---|---|---|---|
| **REVENUES** | | | |
| Local sources | | | |
| Property taxes | $ 18,821,000 | $ 19,729,941 | $ 908,941 |
| Other local sources | 10,447,067 | 10,683,514 | 236,447 |
| County sources | 645,800 | 645,833 | 33 |
| State sources | 62,448,700 | 62,784,764 | 336,064 |
| Federal sources | 6,232,433 | 6,121,411 | (111,022) |
| Total revenues | 98,595,000 | 99,965,463 | 1,370,463 |
| **EXPENDITURES** | | | |
| Instruction: | | | |
| Regular | 42,790,063 | 41,626,395 | 1,163,668 |
| Special education | 14,695,345 | 14,770,563 | (75,218) |
| Vocational education | 2,969,241 | 2,854,281 | 114,960 |
| Federal instruction | 4,905,740 | 4,484,339 | 421,401 |
| Total instruction | 65,360,389 | 63,735,578 | 1,624,811 |
| Tuition: | 1,585,000 | 1,352,315 | 232,685 |
| Support services: | | | |
| Pupil services | 2,975,155 | 2,959,473 | 15,682 |
| Instructional staff services | 3,289,870 | 3,276,150 | 13,720 |
| General administration services | 4,013,199 | 3,873,691 | 139,508 |
| School administration services | 6,370,465 | 6,360,420 | 10,045 |
| Business services | 650,604 | 621,473 | 29,131 |
| Operations and maintenance | 10,481,000 | 10,251,511 | 229,489 |
| Pupil transportation services | 1,872,700 | 2,013,942 | (141,242) |
| Lease payments | 665,000 | 659,753 | 5,247 |
| Total support services | 30,317,993 | 30,016,413 | 301,580 |
| Non-education services: | | | |
| Enterprise services | 459,180 | 352,812 | 106,368 |
| Community services | 2,280,488 | 2,219,325 | 61,163 |
| Student activities | 1,831,950 | 1,747,679 | 84,271 |
| Services provided another LEA | 130,000 | 155,145 | (25,145) |
| Total non education services | 4,701,618 | 4,474,961 | 226,657 |
| Total expenditures | 101,965,000 | 99,579,267 | 2,385,733 |
| Excess (deficiency) of revenues over expenditures | (3,370,000) | 386,196 | 3,756,196 |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Proceeds from sale of capital assets | 10,000 | 92,500 | 82,500 |
| Transfers out | - | (595,860) | (595,860) |
| Total other financing sources and uses | 10,000 | (503,360) | (513,360) |
| Net change in fund balances | (3,360,000) | (117,164) | 3,242,836 |
| Fund balances - beginning | 17,699,609 | 17,699,609 | - |
| Fund balances - ending | $ 14,339,609 | $ 17,582,445 | $ 3,242,836 |

See Notes to the Required Supplementary Information

**MINOT PUBLIC SCHOOL DISTRICT NO. 1**
SCHEDULE OF EMPLOYER CONTRIBUTIONS - PENSION
LAST TEN FISCAL YEARS*

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT**

| | Statutorily required contribution | Contributions in relation to the statutorily required contribution | Contribution deficiency (excess) | Employer's covered-employee payroll | Contributions as a percentage of covered-employee payroll |
|---|---|---|---|---|---|
| 2018 | $ 5,674,143 | $ (5,674,143) | $ - | $ 44,503,060 | 12.75% |
| 2017 | 5,727,812 | (5,727,812) | - | 44,924,000 | 12.75% |
| 2016 | 5,554,725 | (5,554,725) | - | 43,566,502 | 12.75% |
| 2015 | 5,327,246 | (5,327,246) | - | 41,782,306 | 12.75% |

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**

| | Statutorily required contribution | Contributions in relation to the statutorily required contribution | Contribution deficiency (excess) | Employer's covered-employee payroll | Contributions as a percentage of covered-employee payroll |
|---|---|---|---|---|---|
| 2018 | $ 1,259,237 | $ (1,259,237) | $ - | $ 17,685,913 | 7.12% |
| 2017 | 1,234,550 | (1,234,550) | - | 17,339,185 | 7.12% |
| 2016 | 1,137,121 | (1,137,121) | - | 15,970,801 | 7.12% |
| 2015 | 1,047,245 | (1,047,245) | - | 14,708,497 | 7.12% |

* Complete data for this schedule is not available prior to 2015

See Notes to the Required Supplementary Information

**MINOT PUBLIC SCHOOL DISTRICT NO. 1**
SCHEDULES OF EMPLOYER CONTRIBUTIONS - OPEB
LAST TEN FISCAL YEARS*

| | Statutorily required contribution | Contributions in relation to the statutorily required contribution | Contribution deficiency (excess) | Employer's covered-employee payroll | Contributions as a percentage of covered-employee payroll |
|---|---|---|---|---|---|
| 2018 | $ 201,619 | $ (201,619) | $ - | $ 17,685,877 | 1.14% |

*Complete data for this schedule is not available prior to 2018

See Notes to the Required Supplementary Information

**MINOT PUBLIC SCHOOL DISTRICT NO. 1**

SCHEDULES OF EMPLOYER'S PROPORTIONATE SHARE OF NET PENSION LIABILITY

LAST TEN FISCAL YEARS*

## NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

| | Employer's proportion of the net pension liability (asset) | Employer's proportionate share of the net pension liability (asset) | Employer's covered-employee payroll | Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | Plan fiduciary net position as a percentage of the total pension liability |
|---|---|---|---|---|---|
| 2018 | 6.655690% | $ 91,417,617 | $ 44,924,000 | 203.49% | 63.20% |
| 2017 | 6.705377% | 98,237,700 | 43,566,502 | 225.49% | 59.20% |
| 2016 | 6.792713% | 88,838,849 | 41,782,306 | 212.62% | 62.10% |
| 2015 | 6.911929% | 72,424,762 | 40,092,868 | 180.64% | 66.60% |

## NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

| | Employer's proportion of the net pension liability (asset) | Employer's proportionate share of the net pension liability (asset) | Employer's covered-employee payroll | Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | Plan fiduciary net position as a percentage of the total pension liability |
|---|---|---|---|---|---|
| 2018 | 1.668059% | $ 26,811,182 | $ 17,028,272 | 157.45% | 61.98% |
| 2017 | 1.580036% | 15,398,991 | 15,923,030 | 96.71% | 70.46% |
| 2016 | 1.513094% | 10,288,781 | 13,479,829 | 76.33% | 77.15% |
| 2015 | 1.510328% | 9,586,375 | 12,722,678 | 75.35% | 77.70% |

* Complete data for this schedule is not available prior to 2015

See Notes to the Required Supplementary Information

**MINOT PUBLIC SCHOOL DISTRICT NO. 1**
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
JUNE 30, 2018

| | Employer's proportion of the net OPEB liability (asset) | Employer's proportionate share of the net OPEB liability (asset) | Employer's covered-employee payroll | Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll | Plan fiduciary net position as a percentage of the total OPEB liability |
|---|---|---|---|---|---|
| 2018 | 1.574009% | $ 1,245,058 | $ 17,028,272 | 7.31% | 59.78% |

*Complete data for this schedule is not available prior to 2018

See Notes to the Required Supplementary Information

## NOTE 1 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 final budget must be filed with the county auditor by August 15.

The budget may be amended during the year by the Board; however, no amendment changing the taxes levied can be made after October 10.

All appropriations lapse at the close of the Districts' fiscal year. The balance of the appropriation reverts back to each respective fund and is available for future appropriation.

## NOTE 2 BUDGETARY BASIS OF ACCOUNTING

To provide a meaningful comparison of the District's actual results compared to the budgeted results, the Statements of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual are prepared on the District's budgetary basis. Under the District's budgetary basis of accounting, revenues are budgeted on the cash basis of accounting. Expenditures are also budgeted on the cash basis except for teacher salaries and benefits. The District allows teachers to take their compensation in nineteen or twenty-four payments. The budget is prepared estimating the entire contract cost regardless of when the actual payment is made.

### Budgeted Inflows and Outflows

Listed below is a reconciliation between the revenues and expenditures as presented in the District's Statement of Revenues, Expenditures, and Changes in Fund Balance and the budgetary inflows and outflows presented in the District's general fund budget.

| | General Fund |
|---|---|
| *Sources/Inflows of resources* | |
| Actual revenues (budgetary basis) presented on the budgetary comparison schedule | $ 99,965,463 |
| Difference - budget to GAAP | |
| Net effect of June 30, 2017 and 2018 unearned revenue being recognized on the budget statement when collected but not recorded as revenue until earned. | (701,500) |
| Net effect of June 30, 2017 and 2018 revenue recorded when measureable and available on the revenue statement but not recorded as revenue on the budget statement until collected. | (865,142) |
| Total revenue as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balances - Government Funds. | $ 98,398,821 |

*Uses/outflows of resources*

| | | |
|---|---|---|
| Actual expenditures and transfers (budgetary basis) presented on the budgetary comparison schedule | $ | 99,579,267 |
| <u>Difference - budget to GAAP</u><br>Net effect of June 30, 2017 and 2018 liabilities that are paid from "available resources" and are recognized as an expenditure when the obligation is incurred on the revenue statement but not recorded on the budget statement until paid. | | (532,169) |
| Total expenditures as reported on the statement of revenue, expenditure, and changes in fund balances - governmental funds | $ | 99,047,098 |

## NOTE 3 CHANGE OF ASSUMPTIONS

### TFFR Pension Plan

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

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

### NDPERS Pension Plan

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2017 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

### NDPERS OPEB

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2017 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

# MINOT PUBLIC SCHOOL DISTRICT NO. 1
## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE YEAR ENDED JUNE 30, 2018

| Federal Grantor/Pass-through Grantor/Program Title | Federal CFDA Number | Pass-Through Grantor Number | | Federal Expenditures |
|---|---|---|---|---|
| U.S. Department of Agriculture | | | | |
| Team Nutrition Grants | 10.574 | | | $ 7,110 |
| | | | | |
| Passed through the ND Department of Public Instruction: | | | | |
| School Breakfast Program | 10.553 | PII006 | $ 294,795 | |
| National School Lunch Program | 10.555 | PII006 | 1,284,131 | |
| National School Lunch Program - Commodities | 10.555 | PII006 | 293,389 | |
| Special Milk Program | 10.556 | PII006 | 1,519 | |
| Summer Food Service Program | 10.559 | PII008 | 72,666 | |
| Summer Food Service Program - Commodities | 10.559 | PII008 | 435 | |
| Total Child Nutrition Cluster | | | | 1,946,935 |
| | | | | |
| Child and Adult Care Food Program | 10.558 | PII007 | | 226,024 |
| Fresh Fruit & Vegetable Program | 10.582 | PII009 | | 201,327 |
| | | | | |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE | | | | $ 2,381,396 |
| | | | | |
| U.S. Department of Defense | | | | |
| National Guard Challenge Program | 12.404 | | | $ 270,921 |
| Reserve Officer Training Course | 12.U01 | | | 64,635 |
| | | | | |
| TOTAL DEPARTMENT OF DEFENSE | | | | $ 335,556 |
| | | | | |
| U.S. Department of Education | | | | |
| Indian Education - Grants to Local Educational Agencies | 84.060 | | | $ 31,413 |
| | | | | |
| Passed through the ND Department of Public Instruction | | | | |
| Adult Education - Basic Grants to States | 84.002A | F84002A | | 100,000 |
| Title I | 84.010 | PII017, PII019 | | 1,675,046 |
| Program for Neglected and Delinquent Children and Youth | 84.013 | PII018 | | 135,552 |
| Education for Homeless Children and Youth | 84.196 | PII022 | | 12,896 |
| Twenty-First Century Community Learning Centers | 84.287C | PII066 | | 779,635 |
| Special Education-State Personnel Development | 84.323 | PII028 | | 373,249 |
| English Language Acquisition State Grants | 84.365A | F84365A | | 18,238 |
| Improving Teacher Quality | 84.367A | F84367A | | 507,149 |
| Student Support and Academic Enrichment Program | 84.424A | F84424A | | 45,072 |
| | | | | |
| Special Education - Preschool Grants | 84.173 | PII026 | 59,659 | |
| Special Education Grants to States | 84.027 | PII024 | 2,167,140 | |
| Passed through Souris Valley Special Education | | | | |
| Special Education Grants to States | 84.027 | N/A | 30,000 | |
| Total Special Education Cluster | | | | 2,256,799 |
| | | | | |
| Passed through ND State Department of Vocational Education | | | | |
| Career and Tech Education Basic Grants to States | 84.048A | 2038 | | 132,808 |
| | | | | |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | | | $ 6,067,857 |
| | | | | |
| U.S. Department of Health and Human Services | | | | |
| Headstart | 93.600 | | | $ 3,496,465 |
| | | | | |
| TOTAL FEDERAL FINANCIAL ASSISTANCE | | | | $ 12,281,274 |

See Notes to the Schedule of Expenditures of Federal Awards

## NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "schedule") includes the federal award activity of Minot Public School District No. 1 under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The amounts reported on the schedule have been reconciled to and are in agreement with amounts recorded in the accounting records from which the financial statements have been reported.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the applicable cost principles contained in Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award*, wherein certain types of expenditures are not allowable or limited as to reimbursement. Minot Public School District No. 1 has not elected to use the 10-percent de minimis cost rate as allowed under the Uniform Guidance.

## NOTE 3 RECONCILIATION TO FINANCIAL STATEMENTS

The schedule of expenditures of federal awards reports expenditures of federal awards of $12,281,274. Compared to federal revenue reported on the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds of $14,241,466, there is a difference of $1,960,192. This difference is made up of the following:

| | | |
|---|---|---|
| Difference in FEMA revenues and expenditures based on compliance reporting requirements | $ | 2,626,472 |
| Federal revenue in Agency Funds | | (666,280) |
| | $ | 1,960,192 |

BradyMartz

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

To the Board of Education
Minot Public School District No. 1
Minot, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards,* issued by the Comptroller General of the United States, the financial statements of the government activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Minot Public School District No. 1 as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Minot Public School District No. 1's basic financial statements, and have issued our report thereon dated January 18, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Minot Public School District No. 1'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 Minot Public School District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of Minot Public School District No. 1's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency as item 2018-001.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Minot Public School District No. 1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

### District's Response to Finding

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

### Purpose of this Report

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

Brady Martz

**BRADY, MARTZ & ASSOCIATES, P.C.**
**BISMARCK, NORTH DAKOTA**

January 18, 2019

BradyMartz

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

To the Board of Education
Minot Public School District No. 1
Minot, North Dakota

### Report on Compliance for Each Major Federal Program

We have audited Minot Public School District No. 1's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2018. The Minot Public School District No. 1's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The Minot Public School District No. 1's basic financial statements include the operations of the Minot Air Force Base School District #160 as a discretely presented component unit which spent $8,094,965 in federal awards. These awards are not included in the District's schedule of expenditures of federal awards for the year ending June 30, 2018. Our audit described below did not include the operations of the above-mentioned component unit because a separate audit was performed in accordance with Uniform Guidance.

### Management's Responsibility

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

### Auditor's Responsibility

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

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

**Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

**Report on Internal Control Over Compliance**

Management of Minot Public School District No. 1 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Brady Martz

**BRADY, MARTZ & ASSOCIATES, P.C.**
**BISMARCK, NORTH DAKOTA**

January 18, 2019

**MINOT PUBLIC SCHOOL DISTRICT NO. 1**
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

**Section I-Summary of Auditor's Results**

| | | | | |
|---|---|---|---|---|
| Financial Statements | | | | |
| Type of auditor's report issued: | Unmodified | | | |
| Internal control over financial reporting: | | | | |
| Material weakness(es) identified? | ___ | yes | x | no |
| Significant deficiency(ies) identified? | x | yes | ___ | none reported |
| Noncompliance material to financial statements noted? | ___ | yes | x | no |
| Federal Awards | | | | |
| Internal control over major programs: | | | | |
| Material weakness(es) identified? | ___ | yes | x | no |
| Significant deficiency(ies) identified? | ___ | yes | x | no |
| Type of auditor's report issued on compliance for major programs: | Unmodified | | | |
| Any audit findings disclosed that are Required to be reported in accordance with 2 CFR 200.516(a)? | ___ | yes | x | no |

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| 93.600 | Head Start |

| | | | | |
|---|---|---|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 750,000 | | | |
| Auditee qualified as a low-risk auditee? | x | yes | ___ | no |

## Section II - Financial Statement Findings

### 2018-001 Financial Statement Preparation – Significant Deficiency

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

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

Cause
Auditor's prepared draft financial statements, proposed adjusting entries and assisted with the preparation of the Schedule of Expenditures of Federal Awards.

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

Recommendation
The circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials and Planned Corrective Actions
The School Board has decided to accept the degree of risk associated with the District not preparing its own financial statements due to the time and expense necessary to have staff prepare the statements prior to the annual audit.

Indication of Repeat Finding
This is a repeat of finding 2017-001 from the prior year.

## Section III – Federal Award Findings and Questioned Costs

There are no findings which are required to be reported under this section.

## 2017-001 Financial Statement Preparation – Significant Deficiency

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

Condition
The District's auditors prepare the draft financial statements and provided assistance in the presentation of the Schedule of Expenditures of Federal Awards. In addition, material journal entries were proposed to bring the financial statements into compliance with accounting principles generally accepted in the United States of America (U.S. GAAP). An appropriate system of internal controls requires that the District must make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with GAAP. This requires the District's personnel to maintain a working knowledge of current generally accepted accounting principles in the United States of America and the required financial statement disclosures.

Cause
Auditor's prepared draft financial statements, proposed material adjusting entries and assisted with the preparation of the Schedule of Expenditures of Federal Awards.

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

Recommendation
The circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials and Planned Corrective Actions
The School Board has decided to accept the degree of risk associated with the District not preparing its own financial statements due to the time and expense necessary to have staff prepare the statements prior to the annual audit.

Current Status
Based upon our audit testing, the finding was repeated as current year finding 2018-001.

215 2nd St. SE
Minot, ND 58701
Ph 701-857-4400
Fax 701-857-4432

**Corrective Action Plan - June 30, 2018**

**2018-001**

Contact Person
Scott Moum, Business and Operations Manager

Corrective Action Plan
The Board of Education of Minot Public School District No. 1 has decided to accept the degree of risk associated with the District not preparing its own financial statements due to the time and expense necessary to have staff prepare the financial statements prior to the annual audit.

Completion Date
Minot Public School District No. 1 will implement when it becomes cost effective.