

AUDIT REPORT

NORTH BORDER PUBLIC SCHOOL DISTRICT NO. 100
WALHALLA, NORTH DAKOTA

EXAMINATION FOR THE YEAR ENDED
JUNE 30, 2018

NORTH BORDER PUBLIC SCHOOL DISTRICT NO. 100
WALHALLA, NORTH DAKOTA

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**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***

School Board
North Border Public School District No. 100
Walhalla, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and each major fund of the North Border Public School District No. 100 , Walhalla, North Dakota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the North Border Public School District No. 100 's basic financial statements and have issued our report thereon dated September 18, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Border Public School District No. 100's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the South Prairie Public School District No. 70's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Border Public School District No. 100's internal control.

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

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

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control, described in the accompanying schedule of findings and questioned the costs as items 18-1 and 18-2 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Border Public School District No. 100'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*.

North Border Public School District No. 100's Response to Findings

North Border Public School District No. 100's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. North Border Public School District No. 100'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.



Mortenson & Rygh
Park River, North Dakota
September 18, 2018

NORTH BORDER PUBLIC SCHOOL DISTRICT NO. 100
WALHALLA, NORTH DAKOTA

SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2018

- 18-1 Condition: The North Border Public School District No. 100, Walhalla, North Dakota has a business managers and assistant business manager, in two separate locations, responsible for most accounting functions. The business managers collects monies, issues receipts, deposits monies, issues checks, sends checks to vendors, records receipts and disbursements in journals, maintains the general ledger, and prepares financial statements. The degree of internal control is limited.
- Criteria: Internal control should be accomplished through proper separation of duties.
- Effect: Internal control is limited.
- Recommendation: Due to the size of the School District and three separate facilities that are a distance apart, it is not feasible to obtain proper separation of duties and no action is practical.
- Response: We concur with the recommendation
- 18-2 Condition: In lieu of the school board president signing checks manually, the school district has obtained a signature plate. This signature plate is safeguarded by the business manager, whose signature is also required on checks. This situation circumvents the dual signature control and should be reviewed.
- Criteria: A measure of internal control can be accomplished with the requirement of dual signatures on school district warrants.
- Effect: This internal control is circumvented.
- Recommendation: The school board president's signature is often needed during the daily operation of the school district when the board president is not readily available and no action is practical.
- Response: We concur with the recommendation.

September 18, 2018

INDEPENDENT AUDITOR'S REPORT

School Board
North Border Public School District No. 100
Walhalla, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of the North Border Public School District No. 100 Walhalla, North Dakota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the North Border Public School District No. 100 Walhalla, North Dakota, as of June 30, 2018, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United State of America.

Emphasis of Matter

As described in Note 7 to the financial statements in 2018, the School District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is 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 schedule, and pension information on pages 7-11, and 39-46 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 for consistency with the 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.

Report on Summarized Comparative Information

We have previously audited the North Border Public School District No. 100 's fiscal year end June 30, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 19, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it was derived.

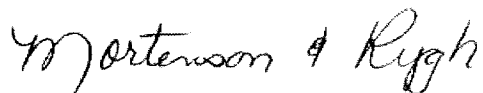
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Border Public School District No. 100's basic financial statements. The supplementary information is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and is 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2018, on our consideration of North Border Public School District No. 100's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Border Public School District No. 100's internal control over financial reporting and compliance.



Mortenson & Rygh
Certified Public Accountants
Park River, North Dakota

September 18, 2018

NORTH BORDER PUBLIC SCHOOL DISTRICT NO. 100
WALHALLA, NORTH DAKOTA

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) of North Border Public School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2018. The intent of the MD&A is to look at the District's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements, which can be found on pages 12-18 of this report.

Financial Highlights

Key financial highlights for the fiscal years 2017-2018 are as follows:

- Net position of the North Border Public School increased (decreased) \$(495,519) as a result of the current years operations. This compares to an increase (decrease) of \$(301,753) for the prior year.
- Governmental net position as of the end of the fiscal year totaled \$908,487. Of this amount, \$(3,941,688) was unrestricted. For the prior year, governmental net assets totaled \$1,404,006 and of this amount \$(3,505,330) was unrestricted.
- Total revenues from all sources were \$7,009,198 compared to \$7,223,283 for the prior year.
- Total expenditures from all sources were \$7,504,717 compared to \$7,525,036 for the prior year.
- At the end of the current fiscal year, the fund balance for the general fund was \$1,805,742, or 27% of total general fund expenditures. For the prior year, the fund balance for the general fund was \$1,931,808, or 29% of total general fund expenditures.
- The District's general fund had \$6,694,840 in total revenues and \$6,670,906 in total expenditures. There was a total of \$(150,000) from other financing sources. Overall, the general fund balance increased (decreased) by \$(126,066) for the year ended June 30, 2018. For the prior year, the District's general fund had \$6,851,140 in total revenues and \$6,705,534 in total expenditures. There was a total of \$(250,000) from other financing sources. Overall, the general fund balance increased (decreased) by \$(104,394) for the year ended June 30, 2017.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the North Border Public School District's basic financial statements. The North Border Public School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the North Border Public School District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the North Border Public School District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the North Border Public School District is improving or deteriorating.

The *Statement of activities* presents information showing how the school's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused annual leave).

Both of the government-wide financial statements distinguish functions of the North Border Public School District that are principally supported by taxes and intergovernmental revenues (government activities).

The governmental activities of the North Border Public School District include regular instruction, special education, vocational education, technology services, library media services, district wide services, administration, school food services, buildings and grounds operations and maintenance, student transportation, co curricular activities, rental payments, capital outlay and debt services. The government-wide financial statements can be found on pages 12-13 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The North Border Public School District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the North Border Public School District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governments near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The North Border Public School District maintains 4 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, food service fund, special reserve fund, debt service fund, and building fund, all of which are considered to be major funds.

The North Border Public School District adopts an annual appropriated budget for its general fund a budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the North Border Public School District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 18 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-38 of this report.

Government-wide Financial analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the North Border Public School District, assets exceeded liabilities by \$908,487 at the close of the most recent fiscal year.

A large portion of the North Border Public Schools District’s net position \$3,853,304 reflects its investment in capital assets (e.g., land, buildings, and improvements, buildings and infrastructure, machinery and equipment, and construction in progress); less any related debt used to acquire those assets that are still outstanding. The North Border Public School District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the North Border Public School District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the North Border Public School District’s net position \$996,871 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$-3,941,688 may be used to meet the school’s ongoing obligations to citizens and creditors.

The school’s net position increased (decreased) by \$(495,519) during the current fiscal year.

**North Border Public School District Net Position
Governmental Activities**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Current and other assets	\$ 3,073,927	\$ 3,175,307	\$ 7,547,305
Capital assets	7,568,304	7,793,416	3,532,681
Deferred outflows	<u>1,681,540</u>	<u>2,072,696</u>	<u>1,106,759</u>
Total assets & deferred outflows	12,323,771	13,041,419	12,186,745
Long-term liabilities outstanding	10,533,972	11,001,627	9,710,404
Other liabilities	221,206	196,299	186,701
Deferred inflows	<u>660,106</u>	<u>439,487</u>	<u>583,881</u>
Total liabilities & deferred inflows	11,415,284	11,637,413	10,480,986
Net Position:			
Net Investment in Capital Assets	3,853,304	3,918,416	2,826,087
Restricted	996,871	990,920	1,988,505
Unrestricted	<u>(3,941,688)</u>	<u>(3,505,330)</u>	<u>(3,108,833)</u>
Total Net Position	\$ 908,487	\$ 1,404,006	\$ 1,705,759

Governmental activities. Governmental activities increased (decreased) the North Border Public School District’s net position by \$(495,519).

**North Border Public School District's Changes in Net Position
As of June 30, 2018, 2017, and 2016**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Revenues			
<u>Program Revenues:</u>			
Charges for Services	\$ 104,584	\$ 101,555	\$ 99,592
Operating Grants and Contributions	906,398	978,061	855,301
Capital Grants	-0-	74,862	-0-
<u>General Revenues:</u>			
Property Taxes	1,774,669	1,775,239	1,750,068
State Aid - Unrestricted	4,165,987	4,217,611	4,318,703
Other	<u>57,560</u>	<u>75,955</u>	<u>119,733</u>
Total Revenues	<u>7,009,198</u>	<u>7,223,283</u>	<u>7,143,397</u>
Expenses			
Instruction	5,299,371	5,350,760	5,037,744
Support Services	1,744,206	1,791,396	1,500,771
Co-curricular Activities	231,361	206,651	235,262
Depreciation - Unallocated	<u>229,779</u>	<u>176,229</u>	<u>119,492</u>
Total Expenses	<u>7,504,717</u>	<u>7,525,036</u>	<u>6,893,269</u>
Net Change in Position	(495,519)	(301,753)	250,128
Beginning Net Position	<u>1,404,006</u>	<u>1,705,759</u>	<u>1,455,631</u>
Ending Net Position	\$ 908,487	\$ 1,404,006	\$ 1,705,759

Financial Analysis of the Government's Funds

As noted earlier, the North Border Public School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the North Border Public School District's governmental funds is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the North Border Public School Districts financing requirements. In particular, *unassigned* fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the North Border Public School District's governmental funds reported combined ending fund balances of \$2,802,613, an increase (decrease) of \$(120,115) in comparison with the prior year.

The general fund is the chief operating fund of the North Border Public School District. At the end of the current fiscal year, unassigned fund of the general fund was \$1,805,742 while total fund balance totaled \$1,805,742. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 27% of the total general fund expenditures, while total fund balance represents 27% of that same amount.

The fund balance of the North Border Public School District's general fund increased (decreased) by \$(126,066) during the current fiscal year. The North Border Public School District budgeted an anticipated increase (decrease) in fund balance of \$(151,857).

General Fund Budgetary Highlights

During the current year, revenues were greater than (less than) budgetary estimates by \$237 expenditures were (greater than) less than budgetary estimates by \$25,554, other financing sources and uses were greater than (less than) budgetary estimates by \$-0-, and ending fund balance exceeded (was less than) budgetary estimates by \$25,791.

During the prior year, revenues were greater than (less than) budgetary estimates by \$73,994, expenditures were (greater than) less than budgetary estimates by \$62,219, other financing sources and uses were greater than (less than) budgetary estimates by \$(100,000), and ending fund balance exceeded (was less than) budgetary estimates by \$36,213.

Capital Assets. As of June 30, 2018, the North Border Public School District had \$7,568,304 invested in capital assets.

North Border School District's Capital Assets

(net of depreciation)

Government Activities

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Land	\$ 58,625	\$ 58,625
Buildings and Improvements	7,143,639	7,286,707
Equipment	260,544	313,539
Vehicles	<u>105,496</u>	<u>134,545</u>
Total	\$ 7,568,304	\$ 7,793,416

Additional information on the North Border Public School District's capital assets can be found in note 4 on page 24 of this report.

Long-Term Debt. At the end of the current fiscal year, the North Border Public School District had debt outstanding of \$10,533,972.

North Border Public School District Outstanding Debt

Governmental Activities

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Bonds Payable	\$ 3,715,000	\$ 3,875,000
Net Pension Liability	\$ 6,818,972	\$ 7,126,627

Additional information on the North Border Public School District's Long Term Debt can be found in note 5 on page 24-25 of this report.

For The Future

The North Border Public School District has benefited from an adequate property tax base and funding from the State of North Dakota. These elements have enabled the District to meet many of its staffing and building maintenance needs. The North Border Public School District, not unlike many rural districts in North Dakota, is experiencing some declining enrollment. With the recent consolidation and other cost efficiencies the District has maintained a financially stable condition.

Requests for Information

This financial report is designed to provide a general overview of the North Border Public School District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Business Manager, 605 10th Street, North Border Public School District, Walhalla, ND 58271.

NORTH BORDER PUBLIC SCHOOL DISTRICT NO. 100
WALHALLA, NORTH DAKOTA

STATEMENT OF NET POSITION
JUNE 30, 2018
(2017 column for comparative purposes only)

	<u>Primary Government</u> <u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
ASSETS AND DEFERRED OUTFLOW OF RESOURCES:		
Cash and Cash Equivalents	\$ 2,941,698	\$ 2,965,928
Taxes Receivable	50,588	56,280
Due from Other Governments	81,641	153,099
Capital Assets:		
Land, Improvements and Construction in Progress		
Other Capital Assets, Net of Depreciation	7,568,304	7,793,416
Deferred Outflow of Resources	1,681,540	2,072,696
	\$ 12,323,771	\$ 13,041,419
	\$ 12,323,771	\$ 13,041,419
LIABILITIES AND DEFERRED INFLOW OF RESOURCES:		
Accounts Payable	\$ 185,373	\$ 162,562
Employee Benefits Payable	35,833	33,737
Noncurrent Liabilities:		
Due in Less than One Year	165,000	160,000
Due in More than One Year	3,550,000	3,715,000
Net Pension Liability	6,818,972	7,126,627
Deferred Inflow of Resources	660,106	439,487
	11,415,284	11,637,413
	11,415,284	11,637,413
NET POSITION:		
Net Investment in Capital Assets	3,853,304	3,918,416
Restricted for:		
Food Service	389,025	392,159
Special Reserve	365,299	364,116
Capital Outlay	242,547	234,645
Unrestricted (Deficit)	(3,941,688)	(3,505,330)
	908,487	1,404,006
	908,487	1,404,006
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION	\$ 12,323,771	\$ 13,041,419
	\$ 12,323,771	\$ 13,041,419

The notes to the financial statements are an integral part of this statement.

NORTH BORDER PUBLIC SCHOOL DISTRICT NO. 100
WALHALLA, NORTH DAKOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(2017 column for comparative purposes only)

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION</u>	
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>GOVERNMENTAL ACTIVITIES 2018</u>	<u>2017</u>
Primary Government:						
Governmental Activities:						
Instruction	\$ (5,299,371)		\$ 822,376		\$ (4,476,995)	\$ (4,449,799)
Support Services	(1,744,206)	\$ 104,584	84,022		(1,555,600)	(1,537,879)
Co-curricular Activities	(231,361)				(231,361)	(206,651)
Depreciation-unallocated	(229,779)				(229,779)	(176,229)
Total Primary Government	(7,504,717)	104,584	906,398	-0-	(6,493,735)	(6,370,558)
			General Revenues:			
			Property Taxes		1,774,669	1,775,239
			Revenue from State Sources:			
			State Foundation Aid		4,165,987	4,217,611
			Other General Revenues		57,560	75,955
			Total General Revenues		5,998,216	6,068,805
			Change in Net Position		(495,519)	(301,753)
			Net Position - Beginning		1,404,006	1,705,759
			NET POSITION - ENDING		\$ 908,487	\$ 1,404,006

The notes to the financial statements are an integral part of this statement.

NORTH BORDER PUBLIC SCHOOL DISTRICT NO. 100
WALHALLA, NORTH DAKOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

(2017 column for comparative purposes only)

<u>ASSETS:</u>	<u>GENERAL FUND</u>	<u>FOOD SERVICE FUND</u>	<u>SPECIAL RESERVE FUND</u>	<u>BUILDING FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS 2018</u>	<u>2017</u>
Cash and Cash Equivalents	\$ 1,942,779	\$ 391,738	\$ 365,299	\$ 241,882	\$ 2,941,698	\$ 2,965,928
Taxes Receivable	46,779			3,809	50,588	56,280
Due From Other Governments	81,012			629	81,641	153,099
Interfund Receivable					-0-	100,000
TOTAL ASSETS	<u>\$ 2,070,570</u>	<u>\$ 391,738</u>	<u>\$ 365,299</u>	<u>\$ 246,320</u>	<u>\$ 3,073,927</u>	<u>\$ 3,275,307</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES & FUND BALANCES</u>						
<u>Liabilities:</u>						
Accounts Payable	\$ 182,660	\$ 2,713			\$ 185,373	\$ 162,562
Employee Benefits Payable	35,833				35,833	33,737
Interfund Payable					-0-	100,000
<u>Deferred Inflows of Resources:</u>						
Uncollected Taxes	46,335			\$ 3,773	50,108	56,280
Total Liabilities & Deferred Inflows of Resources	<u>264,828</u>	<u>2,713</u>	<u>-0-</u>	<u>3,773</u>	<u>271,314</u>	<u>352,579</u>
<u>Fund Balances:</u>						
Fund Balances:						
Restricted for Food Service		389,025			389,025	392,159
Restricted for Special Reserve			365,299		365,299	364,116
Restricted for Capital Projects				242,547	242,547	234,645
Unassigned	1,805,742				1,805,742	1,931,808
Total Fund Balances	<u>1,805,742</u>	<u>389,025</u>	<u>365,299</u>	<u>242,547</u>	<u>2,802,613</u>	<u>2,922,728</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 2,070,570</u>	<u>\$ 391,738</u>	<u>\$ 365,299</u>	<u>\$ 246,320</u>	<u>\$ 3,073,927</u>	<u>\$ 3,275,307</u>

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

NORTH BORDER PUBLIC SCHOOL DISTRICT NO. 100
WALHALLA, NORTH DAKOTA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2018
(2017 column for comparative purposes only)

	<u>2018</u>	<u>2017</u>
Total Fund Balances - Governmental Funds	\$ 2,802,613	\$ 2,922,728
	-----	-----
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,568,304	7,793,416
	-----	-----
Assets such as Deferred Outflows are not available to pay for current period expenditures and therefore are deferred in the funds.	1,681,540	2,072,696
	-----	-----
Liabilities such as Deferred Inflows are not due and payable in the current period and therefore are not reported in the funds.	(660,106)	(439,487)
	-----	-----
Net pension liability for the Teachers Fund for Retirement are not due and payable in the current period and therefore are not reported in the funds.	(6,818,972)	(7,126,627)
	-----	-----
Long-term liabilities, including bonds payable and accrued leave payable are not due and payable in the current period and therefore are not reported in the funds.	(3,715,000)	(3,875,000)
	-----	-----
Assets such as taxes receivable and special assessment receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	50,108	56,280
	-----	-----
Net Position - Governmental Funds	\$ 908,487	\$ 1,404,006
	=====	=====

The notes to the financial statements are an integral part of this statement.

NORTH BORDER PUBLIC SCHOOL DISTRICT NO. 100
WALHALLA, NORTH DAKOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(2017 column for comparative purposes only)

	GENERAL FUND	FOOD SERVICE FUND	SPECIAL RESERVE FUND	BUILDING FUND	TOTAL FUNDS	
					2018	2017
<u>REVENUES</u>						
Local Sources:						
Property Taxes	\$ 1,650,533			\$ 130,308	\$ 1,780,841	\$ 1,791,450
Charges for Services		\$ 104,584			104,584	101,555
Other Revenue	55,944		\$ 1,183	433	57,560	75,955
State Sources:						
Grants-In-Aid: Unrestricted	4,165,987				4,165,987	4,217,611
Grants-In-Aid: Restricted	689,529	904			690,433	786,536
Federal Sources:						
Grants-In-Aid: Restricted Received Through DPI	132,847	83,118			215,965	266,387
TOTAL REVENUES	6,694,840	188,606	1,183	130,741	7,015,370	7,239,494
<u>EXPENDITURES</u>						
Current:						
Regular Programs	2,948,991				2,948,991	2,933,621
Federal Programs	129,674				129,674	187,946
Instructional Media	182,108				182,108	195,073
School Board	206,286				206,286	190,185
Administration	179,028				179,028	177,264
Operation and maintenance of plant	742,326				742,326	675,079
Other Support Service	5,650				5,650	5,600
Student Transportation	198,786				198,786	199,618
Extracurricular Activities	231,361				231,361	206,651
Childhood Education					-0-	64,362
Food Services	112,218	191,740			303,958	310,410
Tuition	6,954				6,954	14,845
Special Education	1,486,744				1,486,744	1,491,373
Vocational Education	240,780				240,780	252,010
Debt Service:						
Principal				160,000	160,000	95,000
Interest				110,461	110,461	124,952
Capital Outlay				2,378	2,378	4,480,890
TOTAL EXPENDITURES	6,670,906	191,740	-0-	272,839	7,135,485	11,604,879
Excess of Revenues Over (Under) Expenditures	23,934	(3,134)	1,183	(142,098)	(120,115)	(4,365,385)
<u>OTHER FINANCING SOURCES</u>						
Transfers In				150,000	150,000	250,000
Transfers Out	(150,000)				(150,000)	(250,000)
Net Changes in Fund Balances	(126,066)	(3,134)	1,183	7,902	(120,115)	(4,365,385)
Fund Balance - July 1	1,931,808	392,159	364,116	234,645	2,922,728	7,288,113
FUND BALANCE - JUNE 30	\$ 1,805,742	\$ 389,025	\$ 365,299	\$ 242,547	\$ 2,802,613	\$ 2,922,728

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

NORTH BORDER PUBLIC SCHOOL DISTRICT NO. 100
WALHALLA, NORTH DAKOTA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018
(2017 column for comparative purposes only)

	<u>2018</u>	<u>2017</u>
Net Change in Fund Balances - Total Governmental Funds	\$ (120,115)	\$ (4,365,385)
	-----	-----
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(225,112)	4,260,735
	-----	-----
Government funds report deferred outflows as expenditures however, in the statement of activities these costs do not require the use or provide a source of financial resources.	(391,156)	965,937
	-----	-----
Government funds report deferred inflows as revenue however, in the statement of activities these inflows do not require the use or provide a source of financial resources.	(220,619)	144,394
	-----	-----
Reduction or Increase of the Net Pension Liability does not require the use or provide a source of financial resources.	307,655	(1,386,223)
	-----	-----
Governmental funds report debt retirement as expenditures however, in the statement of activities this cash outlay is not an expenditure but a reduction to a liability on the statement of net position.	160,000	95,000
	-----	-----
Revenue from property taxes is deferred in the fund financial statements until they are considered available to finance current expenditures, but such revenues are recognized when levied in the government-wide financial statements.	(6,172)	(16,211)
	-----	-----
Change in Net Position of Governmental Activities	\$ (495,519)	\$ (301,753)
	=====	=====

The notes to the financial statements are an integral part of this statement.

NORTH BORDER PUBLIC SCHOOL DISTRICT NO. 100
WALHALLA, NORTH DAKOTA

STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2018
(2017 column for comparative purposes only)

	AGENCY FUND	
	2018	2017
ASSETS:		
Cash	\$ 404,161	\$ 381,543
	-----	-----
TOTAL ASSETS	\$ 404,161	\$ 381,543
	=====	=====
 LIABILITIES:		
Accounts Payable	\$ 62	\$ -0-
Amounts Held For Student Groups	135,339	136,010
Amounts Held For Self-Funded Insurance Fund	268,760	245,533
	-----	-----
TOTAL LIABILITIES	\$ 404,161	\$ 381,543
	=====	=====

The notes to the financial statements are an integral part of this statement.

NORTH BORDER PUBLIC SCHOOL DISTRICT NO. 100
WALHALLA, NORTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The School Board is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. Generally accepted accounting principles require that the financial statements of the reporting entity include those of the School District (the primary government) and its component units. A component unit would be included in the School District's reporting entity because of the significance of their operational or financial relationship with the School District. The criteria established by GSAB Statement No. 14 in determining financial accountability includes appointing a voting majority of an organization's governing body and (1) the ability of the school district to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the school district. The School District has no component units as defined in GASB Statement No. 14 which should be included in the reporting entity.

North Border Public School District Building Authority - The building authority was created by the school board as a legally separate entity. Its purpose is to promote the educational system of the district by providing financing for use by the school in altering, repairing, maintaining, or constructing buildings and making any improvements connected to school buildings. The school board is the governing board of the building authority.

B. Basis of Presentation

Government-wide Financial Statements: The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all the School District's nonfiduciary activities with most interfund activities removed. *Governmental Activities* include programs supported primarily by taxes, State foundation aid, grants, and other intergovernmental revenues. The School District has no business type activities that rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to recipients of goods and services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements: The fund financial statements provide information for governmental funds and fiduciary funds. Separate statements are presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. The School District considers all governmental funds as major funds.

The funds of the financial reporting entity are described below:

GOVERNMENTAL FUNDS:

General Fund - The general fund is the general operating fund of the school district. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds - Capital projects funds are used to account and report financial resources that are *restricted, committed, or assigned* to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds - Debt service funds are used to account for and report financial resources that are *restricted, committed, or assigned* to expenditure for principal and interest.

FIDUCIARY FUNDS:

Agency Funds - Agency funds are used to account for assets held by the school district as an agent for individuals, private organizations, other governments and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Following is a list of the major funds:

<u>Fund</u>	<u>Brief Description</u>
General Fund	The General Fund is the general operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund.
Food Service Fund	A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants.
Special Reserve Fund	A fund established to hold reserve funds.
Debt Service Fund	A fund used to record financial transactions related to retirement of long term debt.
Building Fund	A fund established to meet expenditures involving acquisition of plant and equipment and related costs. This fund is financed by property taxes.

C. Basis of Accounting

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable. The school district considers property tax as available when they are collected. Property taxes collected within 60 days after year end are not material.

Revenues from local sources consist primarily of property taxes. Revenues received from the Department of Public Instruction are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

D. Cash and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts, and highly liquid investments with an original maturity of three months or less. Deposits must either 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 secured with pledges of securities equal to 110% of the uninsured balance.

State statutes authorize local governments to invest in: a) bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress, b) securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above, c) certificates of deposit fully insured by the federal deposit insurance corporation or the state, d) obligations of the state. Investments are stated at cost. The only investments held by the school district are certificates of deposit.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the school's deposits may not be recovered. State law requires local governments to deposit funds in financial institutions carrying federal deposit insurance and a pledge of governmental securities for deposits in excess of deposit insurance coverage. All school district funds were adequately insured or collateralized by government securities.

Credit risk is the risk that the counterparty of an investment will not fulfill its obligations. The district's policy for limiting the credit risk of investment is to only invest in certificates of deposit fully insured or collateralized by pledge of governmental securities.

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The district manages its exposure to declines in fair value by investing only in certificates of deposit that are quite stable in rate of return and relatively short term.

E. Capital Assets

Capital Assets include land, buildings, equipment, vehicles, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment for capital assets depends on whether the assets are reported in the government-wide or fund financial statements.

Government-Wide Statements

All capital assets are valued at actual or estimated historical cost. Donated capital assets are valued at their estimated fair value on the date donated.

Interest costs incurred during the construction of Governmental Activities capital assets are not capitalized along with other capital asset costs.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with net capital assets reflected in the Statement of Net Position. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements are as follows.

	Capitalization <u>Threshold</u>	Depreciation <u>Method</u>	Estimated <u>Useful Life</u>
Land	\$ 5,000	Straight-Line	-----
Buildings & Improvements	5,000	Straight-Line	25-50 years
Equipment	5,000	Straight-Line	10-25 years
Vehicles	5,000	Straight-Line	10 years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements

In the fund financial statements, capital assets used in the governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition.

F. Long-Term Liabilities

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest as expenditures.

G. Compensated Absences

In accordance with the provisions of GASB Statement No, 16, a liability is not recorded for nonvesting accumulating rights to receive sick pay benefits.

H. Fund Equity

Nonspendable fund balances will include amounts that cannot be spent because they are either in nonspendable form or they are legally required to be maintained intact.

Restricted fund balances will exist when constraints are placed of those resources that are either externally imposed or imposed by law.

Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed by the school board.

Assigned fund balances will be amounts that are constrained by the school district's intent to be used for specific purposes, but are neither restricted, nor committed.

Unassigned fund balances will represent those funds that have not been assigned, committed, restricted, or considered nonspendable. The general fund will be the only fund that will report an unassigned fund balance except for a deficit fund balance in other funds.

I. Order of Fund Balance Spending Policy

The school district's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting journal entries. First nonspendable amounts are determined. Then restricted balances for specific purposes are determined. Then any remaining fund balance amounts for the non-general funds are classified as restricted fund balance. It is possible for the non-general funds to have negative unassigned fund balances if the fund is in a deficit situation.

J. Prior Year Comparative Total Columns

Prior year total columns are financial data provided for analysis and comparative purposes only

NOTE 2: DEPOSITS AND INVESTMENTS

At June 30, 2018 the School District had deposits of \$3,345,859.53. District deposits at balance sheet date were covered by federal depository insurance or pledge of governmental securities. Securities pledged were held by the entity or its agent in the entity's name (Category II assets). North Dakota statutes require the market value of collateral pledged must equal 110% of the deposits not covered by FDIC insurance. District deposits were adequately protected.

NOTE 3: TAXES RECEIVABLE

Taxes receivable consist of current taxes and delinquent uncollected taxes for the past three years as of June 30. No allowance has been established for uncollectible taxes receivable.

Property taxes attach as an enforceable lien on property on January 1. The tax levy may be paid in two installments: the first installment includes one-half of the real estate taxes and all the special assessments; the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

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

NOTE 4: CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2018, is as follows:

Capital Assets:	<u>7-01-17</u>	<u>Additions</u>	<u>Retirements</u>	<u>6-30-18</u>
Land	\$ 58,625			\$ 58,625
Buildings & Improvements	16,915,306	\$ 33,716		16,949,022
Equipment	627,761			627,761
Vehicles	290,492			290,492
	-----	-----	-----	-----
Totals	17,892,184	33,716	-0-	17,925,900
	-----	-----	-----	-----
Less Accumulated Depreciation for:				
Buildings & Improvements	9,628,599	176,784		9,805,383
Equipment	314,222	52,995		367,217
Vehicles	155,947	29,049		184,996
	-----	-----	-----	-----
Totals	10,098,768	258,828	-0-	10,357,596
	-----	-----	-----	-----
Government Activity				
Net Capital Assets	\$ 7,793,416	\$ (225,112)	\$ -0-	\$ 7,568,304
	=====	=====	=====	=====

Depreciation was charged to functions as follows:

Governmental Activities:		<u>2018</u>	<u>2017</u>
Support Services		\$ 29,049	\$ 29,049
Depreciation - Unallocated		229,779	176,229
		-----	-----
Total Depreciation Expense - Governmental Activities		\$ 258,828	\$ 205,278
		=====	=====

NOTE 5: GENERAL LONG-TERM DEBT

The following is a summary of debt transactions of the school district for the year ended June 30, 2018:

	<u>BONDS</u>
	<u>PAYABLE</u>
Debt Payable July 1	\$ 3,875,000
Debt Issued	-0-
Debt Retired	160,000

Debt Payable June 30	\$ 3,715,000
	=====
Due within one year	\$ 165,000
	=====

Debt payable at June 30, 2018 is comprised of the following individual issues:

\$3,970,000 North Border Public School District Building Authority Lease Revenue Bonds, Series 2015, for construction. The bonds call for annual principal payments of \$95,000 to \$265,000 from August 1, 2016 through August 1, 2035 and interest at 2% to 3.6%.

\$3,715,000
=====

The annual requirements to amortize all debt outstanding as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	165,000	106,420	271,420
2020	170,000	103,070	273,070
2021	170,000	99,670	269,670
2022	175,000	96,220	271,220
2023	180,000	92,490	272,490
2024	185,000	88,290	273,290
2025	185,000	83,295	268,295
2026	195,000	77,595	272,595
2027	200,000	71,670	271,670
2028	205,000	65,595	270,595
2029	210,000	59,370	269,370
2030	215,000	52,995	267,995
2031	225,000	46,170	271,170
2032	230,000	38,890	268,890
2033	240,000	31,130	271,130
2034	245,000	22,885	267,885
2035	255,000	14,130	269,130
2036	265,000	4,770	269,770
TOTAL	----- \$ 3,715,000 =====	----- \$ 1,154,655 =====	----- \$ 4,869,655 =====

The school district is in compliance with all bond covenants.

NOTE 6: DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources in the balance sheet represent amounts reported for uncollected taxes receivable in the fund financial statements for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, uncollected taxes receivable are measurable but not available.

NOTE 7: EMPLOYEE RETIREMENT SYSTEMS

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

General Information about 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 the 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 funded members on or after July 1, 2008.

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.

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.

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% when the fund reaches 100% funded ratio on an actuarial basis.

A vested member who terminates covered employment may elect a refund of contributions plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70 ½. 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 Employer reported a liability of \$5,754,656 (from Exhibit E Column 2 in TFFR GASB Report) 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 .418970%, (from Exhibit E, Column 1 in TFFR GASB Report) which was an increase or (decrease) of (.025701) from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018 the Employer recognized pension expense of \$486,593 (from Exhibit E, Column 13 of TFFR GASB Report). At June 30, 2018 the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (from Exhibit E, Columns 14-22 of TFFR GASB Report with the exception of employer contributions subsequent to the measurement date):

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience	\$ 22,073	\$ 62,820
Changes of assumptions	410,170	-0-
Net difference between projected and actual earnings on pension plan investments	79,488	-0-
Changes in proportion and differences between employer contributions and proportionate share of contributions	257,467	553,429
Employer contributions subsequent to the measurement date (see below)	347,861	-0-
Total	<u>\$ 1,117,059</u>	<u>\$ 616,249</u>

\$347,861 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 (employer's subsequent fiscal year-end).

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (from Exhibit E, Columns 23-28 of TFFR GASB Report - years will need to be rolled forward one year from the dates in the report):

Year ended June 30:	
2019	\$ 31,965
2020	156,645
2021	78,583
2022	(58,367)
2023	(4,614)
Thereafter	(51,263)

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%-14.5%, varying by service, including inflation and productivity
Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

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

The actuarial assumptions used were based on the results of an actuarial experience study dated April 30, 2015. They are the same as the assumptions used in the July 1, 2017, 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 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 pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equities	58%	6.7%
Global Fixed Income	23%	0.8%
Global Real Assets	18%	5.2%
Cash Equivalents	1%	0.0%

Discount Rate. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 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 member 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.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate: (from Exhibit E, Columns 4-6 TFFR GASB Report)

	Current Discount		
	1% Decrease(6.75%)	Rate (7.75%)	1% Increase (8.75%)
Employer's proportionate share of the net pension liability	\$7,650,918	\$5,754,656	\$4,176,076

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued TFFR financial report. TFFR's comprehensive annual financial report (CAFR) is located at www.nd.gov/rio/sib/publications/cafr/default.htm.

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

General Information about North Dakota Public Employees Retirement System (Main System)
The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, 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 provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

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

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by 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 (employer's fiscal year end), the Employer reported a liability of \$1,017,085 (from Section E, Schedule of Net Pension Liability by Employer) for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, (date of NDPERS GASB Report) 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 (date of NDPERS GASB Report) the Employer's proportion was .063278 percent, (from Section E, Schedule of Net Pension Liability by Employer) which was an increase or (decrease) of .000490 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018 (employer's fiscal year-end) the Employer recognized pension expense of \$167,450 (from Section E, Schedule of Pension Amounts by Employer). At June 30, 2018 (employer's fiscal year-end) the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (from Section E, Schedule of Net Deferred Outflows and Inflows by Year by Employer):

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience	\$ 6,045	\$ 4,955
Changes of assumptions	417,074	22,940
Net difference between projected and actual earnings on pension plan investments	13,679	-0-
Changes in proportion and differences between employer contributions and proportionate share of contributions	68,077	12,726
Employer contributions subsequent to the measurement date (see below)	47,436	-0-
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Total	\$ 552,311	\$ 40,621
	=====	=====

\$47,436 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 (employer's subsequent fiscal year-end).

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (from Section E, Schedule of Deferred Outflows and Inflows by Year by Employer). Years will need to be rolled forward one year from the dates in the report:

Year ended June 30:	
2018	\$ 13,325
2019	13,325
2020	13,413
2021	15,124
2022	164
Thereafter	-0-

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	3.50%	
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 with ages set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no set back for females) multiplied by 125%.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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 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: (from Section E, Net Pension Liability Discount Rate Sensitivity by Employer)

	1% Decrease (5.44%)	Current Discount Rate (6.44%)	1% Increase (7.44%)
Employer's proportionate share of the net pension liability	\$1,380,724	\$1,017,085	\$714,553

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

Other Post Employment Benefits (OPEB). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions 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.

General Information about the OPEB Plan (NDPERS)

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 advanced -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 “*refunded 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 and Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018 (employer’s fiscal year end), the Employer reported a liability of \$47,231 (from Section E, Schedule of Net OPEB Liability by Employer) for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, (date of NDPERS GASB Report) 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 the covered payroll of all participating OPEB employers. At June 30, 2017, (date of NDPERS GASB Report) the Employer’s proportion was .059710 percent, (from Section E, Schedule of Net OPEB Liability by Employer).

For the year ended June 30, 2018 (employer’s fiscal year-end) the Employer recognized OPEB expense of \$5,646 (from Section E, Schedule of Contributions by Employer). At June 30, 2018 (employer’s fiscal year-end) the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (from Section E, Schedule of Net Deferred Outflows and Inflows by Year by Employer):

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience	\$ -0-	\$ 1,152
Changes of assumptions	4,575	-0-
Net difference between projected and actual earnings on OPEB plan investments	-0-	1,786

Changes in proportion and differences between employer contributions and proportionate share of contributions	-0-	298
Employer contributions subsequent to the measurement date (see below)	7,595	-0-
	-----	-----
Total	\$ 12,170	\$ 3,236
	=====	=====

\$7,595 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 (employer's subsequent fiscal year-end).

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB's will be recognized in OPEB expense as follows (from Section E, Schedule of Net Deferred Outflows and Inflows by Year By Employer). Years will need to be rolled forward one year from dates in report):

Year ended June 30:

2018	\$ 42
2019	42
2020	42
2021	42
2022	489
2023	489
Thereafter	193

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Domestic Equities	37%	5.80%
Small Cap Domestic Equities	9%	7.05%
International Equities	14%	6.20%
Core-Plus Fixed Income	40%	1.56%

Discount Rate. The discount rate used to measure the total OPEB liability was 7.75%. 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 (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate: (from Section E, Net OPEB Liability Discount Rate Sensitivity by Employer)

	Current Discount		
	1% Decrease(6.5%)	Rate (7.5%)	1% Increase (8.5%)
Employer’s proportionate share of the net OPEB liability	\$59,128	\$47,231	\$37,034

NOTE 8: RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds established by the State for risk management issues:

The School District participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The School District pays an annual premium to the State Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12 month period. The State Bonding Fund does not currently charge any premium for this coverage.

The School District participates in the North Dakota Worker’s Compensation Bureau, an Enterprise Fund of the State of North Dakota. The Bureau is a state insurance fund and a “no fault” insurance system covering the State’s employers and employees financed for the payment of claims to employees injured in the course of employment.

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

During the mid-1980's, the School 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 1991, 1992, 1993, 1994, and 1995, the NDIRF returned 20% each year, for a total of 100%, of the capitalized amount with a premium reduction or cash payment to the School District. The coverage by NDIRF is limited to losses of \$1,000,000 per occurrence.

NOTE 9: INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2018 were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General		\$ 150,000
Building	\$ 150,000	
	-----	-----
Total	\$ 150,000	\$ 150,000
	=====	=====

Interfund transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorization; to segregate and to return money to the fund from which it was originally provided once a project is complete.

NORTH BORDER PUBLIC SCHOOL DISTRICT NO. 100
WALHALLA, NORTH DAKOTA

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

<u>REVENUES</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>BUDGET BASIS ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)</u>
Local Sources	\$ 1,691,944	\$ 1,691,944	\$ 1,706,477	\$ 14,533
State Sources	4,868,903	4,868,903	4,855,516	(13,387)
Federal Sources	125,904	133,756	132,847	(909)
TOTAL REVENUES	<u>6,686,751</u>	<u>6,694,603</u>	<u>6,694,840</u>	<u>237</u>
<u>EXPENDITURES</u>				
Current:				
Regular Programs	3,036,984	3,036,984	2,948,991	87,993
Federal Programs	121,823	121,823	129,674	(7,851)
Instructional Media	206,063	206,063	182,108	23,955
School Board	196,465	196,465	206,286	(9,821)
Administration	181,350	181,350	179,028	2,322
Operation and Maintenance of Plant	651,893	651,893	742,326	(90,433)
Other Support Service	6,000	6,000	5,650	350
Student Transportation	200,788	200,788	198,786	2,002
Extracurricular Activities	223,838	223,838	231,361	(7,523)
Food Services	110,536	110,536	112,218	(1,682)
Tuition	18,000	18,000	6,954	11,046
Special Education	1,498,711	1,498,711	1,486,744	11,967
Vocational Education	244,009	244,009	240,780	3,229
TOTAL EXPENDITURES	<u>6,696,460</u>	<u>6,696,460</u>	<u>6,670,906</u>	<u>25,554</u>
Excess of Revenues Over (Under) Expenditures	(9,709)	(1,857)	23,934	25,791
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In				
Transfer Out	(150,000)	(150,000)	(150,000)	-0-
Fund Balance - July 1	1,931,808	1,931,808	1,931,808	-0-
FUND BALANCE - JUNE 30	<u>\$ 1,772,099</u>	<u>\$ 1,779,951</u>	<u>\$ 1,805,742</u>	<u>\$ 25,791</u>

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

North Border Public School District No. 100
Walhalla, North Dakota

Schedule of Employer's Share of Net Pension Liability
ND Teachers' Fund for Retirement
Last 10 Fiscal Years*
June 30, 2018
(from Exhibit E and Exhibit 2 of TFFR GASB Report)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
1. Employer's proportion of the net pension liability (asset). Exhibit E, Column 1	.418970%	.444671%	.413789%	.456746%
2. Employer's proportionate share of the net pension liability (asset). Exhibit E, Column 2	\$5,754,656	\$6,514,697	\$5,411,761	\$4,785,888
3. Employer's covered-employee payroll. Exhibit E, Column 3	\$2,827,925	\$2,889,141	\$2,545,237	\$2,649,367
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll. Calculate, 2 divided by 3	203.49%	225.49%	212.62%	180.64%
5. Plan fiduciary net position as a percentage of the total pension liability. Exhibit 2	63.2%	59.2%	62.1%	66.6%

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

The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

North Border Public School District No. 100
Walhalla, North Dakota

Schedule of Employer Contributions
ND Teacher's Fund for Retirement
Last 10 Fiscal Years*
June 30, 2018
(from Exhibit E of TFFR GASB Report)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
1. Statutorily required contribution Exhibit E, Column 7	\$347,861	\$360,561	\$368,366	\$324,502	\$284,805
2. Contributions in relation to the statutorily required contribution Exhibit E, Column 8	\$(347,861)	\$(360,561)	\$(368,366)	\$(324,502)	\$(284,805)
3. Contribution deficiency (excess) Exhibit E, Column 9	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
4. Employer's covered-employee payroll Exhibit E, Column 3	\$2,728,317	\$2,827,925	\$2,889,141	\$2,545,237	\$2,649,367
5. Contributions as a percentage of covered-employee payroll Exhibit E, Column 10	12.75%	12.75%	12.75%	12.75%	10.75%

*Complete data for this schedule is not available prior to 2014.

North Border Public School District No. 100
Walhalla, North Dakota

Schedule of Employer's Share of Net Pension Liability
ND Public Employee Retirement System
Last 10 Fiscal Years*
June 30, 2018
(from Section E, Schedule of Net Pension Liability by Employer)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
1. Employer's proportion of the net pension liability (asset).	.063278%	.062788%	.048331%	.051906%
2. Employer's proportionate share of the net pension liability (asset).	\$1,017,085	\$611,930	\$328,643	\$329,458
3. Employer's covered-employee payroll.	\$645,968	\$632,756	\$430,571	\$437,249
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll. Calculate, 2 divided by 3	157.45%	96.71%	76.33%	75.35%
5. Plan fiduciary net position as a percentage of the total pension liability. Section C	61.98%	70.46%	77.70%	72.12%

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

The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

North Border Public School District No. 100
Walhalla, North Dakota

Schedule of Employer Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years*
June 30, 2018
(from Section E, Schedule of Contributions by Employer)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
1. Statutorily required contribution.	\$46,841	\$45,810	\$32,705	\$31,132
2. Contributions in relation to the statutorily required contribution.	\$(44,744)	\$40,694	\$(33,546)	\$(31,132)
3. Contribution deficiency (excess).	\$2,097	\$5,116	\$(841)	\$-0-
4. Employer's covered-employee payroll.	\$645,968	\$632,756	\$430,571	\$437,249
5. Contributions as a percentage of covered-employee payroll.	6.93%	6.43%	7.60%	7.12%

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

The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

North Border Public School District No. 100
Walhalla, North Dakota

Schedule of Employer's Share of Net OPEB Liability
ND Public Employees Retirement System
Last 10 Fiscal Years*
June 30, 2018

(from Section E, Schedule of Net OPEB Liability by Employer)

	<u>2018</u>
1. Employer's proportion of the net OPEB liability (asset).	.059710%
2. Employer's proportionate share of the net OPEB liability (asset).	\$47,231
3. Employer's covered-employee payroll.	\$645,968
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll. Calculate, 2 divided by 3	7.31%
5. Plan fiduciary net position as a percentage of the total pension liability. Section C	59.78%

*Complete data for this schedule is not available prior to 2017.

The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

North Border Public School District No. 100
Walhalla, North Dakota

Schedule of Employer OPEB Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years*
June 30, 2018

(from Section E, Schedule of OPEB Contributions by Employer)

	<u>2018</u>
1. Statutorily required contribution.	\$7,509
2. Contributions in relation to the statutorily required contribution.	\$(7,164)
3. Contribution deficiency (excess).	\$345
4. Employer's covered-employee payroll.	\$645,968
5. Contributions as a percentage of covered-employee payroll.	1.11%

*Complete data for this schedule is not available prior to 2017.

The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

NORTH BORDER PUBLIC SCHOOL DISTRICT NO. 100
WALHALLA, NORTH DAKOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

The Board of Education adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States for the general fund, special revenue funds, debt service funds, and capital project funds.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

The annual budget must be prepared and school district taxes must be levied on or before the fifteenth day of August of each year.

The taxes levied must be certified to the county auditor by August twenty-fifth. The governing body of the school district may amend its tax levy and budget on or before the tenth day of October of each year but the certification must be filed with the county auditor within the time limitations as outlined in NDCC section 57-15-31.1.

The operating budget includes proposed expenditures and means of financing them.

Each budget is controlled by the business manager at the revenue and expenditure function/object level.

The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.

All appropriations lapse at year-end.

NOTE 2: CHANGES OF ASSUMPTIONS

Regarding the ND Teachers' Fund for Retirement amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2016 based on the results of an actuarial experience study dated April 30, 2015. This includes changes to the investment return, inflation, salary scale, administrative expenses, turnover and retirement rates, and mortality tables.

Regarding the ND Public Employees Retirement System 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.

NORTH BORDER PUBLIC SCHOOL DISTRICT NO. 100
WALHALLA, NORTH DAKOTA

SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>BALANCE</u> <u>7-01-17</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE</u> <u>6-30-18</u>
<u>GENERAL FUND TYPE</u>				
General Fund	\$ 2,079,830.99	\$ 6,761,595.59	\$ 6,898,647.25	\$ 1,942,779.33
<u>SPECIAL REVENUE FUND TYPE</u>				
Food Service Fund	392,223.12	188,605.92	189,090.88	391,738.16
Special Reserve Fund	364,116.08	1,182.87	-0-	365,298.95
<u>CAPITAL PROJECTS FUND TYPE</u>				
Building Fund	129,757.75	384,962.87	272,838.97	241,881.65
<u>AGENCY FUND TYPES</u>				
Student Activity Fund	136,009.96	121,619.66	122,228.08	135,401.54
Self-Funded Insurance Fund	245,533.13	481,310.11	458,083.34	268,759.90
	-----	-----	-----	-----
TOTAL ALL FUNDS	\$ 3,347,471.03	\$ 7,939,277.02	\$ 7,940,888.52	\$ 3,345,859.53
	=====	=====	=====	=====

NORTH BORDER PUBLIC SCHOOL DISTRICT NO. 100
WALHALLA, NORTH DAKOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

<u>FEDERAL GRANTOR\ PASS-THROUGH GRANTOR\PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>EXPENDITURES 2018</u>
<u>U. S. Department of Education</u>			
Passed Through State Department of Public Instruction:			
Title I	84.010	F84010	\$ 86,365.40
Title IIA	84.367	F84367	33,309.00
Title IV	84.244	F84244	10,000.00
Passed Through North Valley Area Career & Tech Center:			
Vocational Education (Carl Perkins Grant)	84.048	NONE	3,172.26
Total U. S. Department of Education			----- 132,846.66 -----
 <u>U. S. Department of Agriculture</u>			
Passed Through State Department of Public Instruction:			
School Lunch Program	10.555	F10555	75,092.11
Fresh Fruits & Vegetables Program	10.582	F10568	8,026.30
Commodities	10.565	F10565	17,665.49
Total U.S. Department of Agriculture			----- 100,783.90 -----
TOTAL FEDERAL FINANCIAL ASSISTANCE			----- \$ 233,630.56 =====

NORTH BORDER PUBLIC SCHOOL DISTRICT NO. 100
WALHALLA, NORTH DAKOTA

SCHOOL DISTRICT OFFICIALS
FOR THE YEAR ENDED JUNE 30, 2018

Mike Gapp	Board President
Mason Peters	Board Vice-President
Samantha Diemert	Board Member
Tina Dorion	Board Member
Jared Hanson	Board Member
Jared Johnson	Board Member
Luke Longtin	Board Member
Paul Stremick	Superintendent
Lori Lorz	Business Manager