

**BEACH PUBLIC SCHOOL DISTRICT NO. 3  
BEACH, NORTH DAKOTA**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2017**

**JAMES J. WOSEPKA, PC  
CERTIFIED PUBLIC ACCOUNTANT  
BEACH, NORTH DAKOTA**

**BEACH PUBLIC SCHOOL DISTRICT NO. 3  
BEACH, NORTH DAKOTA  
JUNE 30, 2017**

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## **James J. Wosepka, PC – Certified Public Accountant**

Licensed in North Dakota and Montana

### **INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Beach Public School District No. 3  
Beach, North Dakota 58621

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Beach Public School District No. 3, Beach, North Dakota, as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

#### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Beach Public School District No. 3, Beach, North Dakota, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (omitted) and budgetary comparison information on pages 32-37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2017, on our consideration of Beach Public School District No. 3, Beach, North Dakota'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 Beach Public School District No. 3, Beach, North Dakota's internal control over financial reporting and compliance.

James J. Wosepka, PC

By  CPA

Beach, North Dakota  
September 1, 2017

**BEACH PUBLIC SCHOOL DISTRICT NO. 3**  
**STATEMENT OF NET POSITION**  
**June 30, 2017**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,023,720
Taxes/assessments receivable	41,264
Due from other governments	311,494
Accounts receivable	2,950
Capital assets not being depreciated	
Land	121,100
Capital assets being depreciated (net of accumulated depreciation)	4,617,093
	<hr/>
<b>Total Assets</b>	6,117,621
	<hr/>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	1,003,166
	<hr/>
<b>LIABILITIES</b>	
Noncurrent liabilities:	
Due within one year	-
Due in more than one year	5,841,729
	<hr/>
<b>Total Liabilities</b>	5,841,729
	<hr/>
<b>DEFERRED INFLOWS OF RESOURCES</b>	362,992
	<hr/>
<b>NET POSITION</b>	
Net investment in capital assets	4,738,193
Unrestricted net position	(3,320,874)
Restricted net position	10,387
	<hr/>
<b>Total Net Position</b>	\$ 1,427,706
	<hr/> <hr/>

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

**BEACH PUBLIC SCHOOL DISTRICT NO. 3**  
**STATEMENT OF ACTIVITIES**  
**Fiscal Year Ended June 30, 2017**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services, Fines, Forfeitures, etc.	Operating Grants and Contributions	Primary Governmental Activities	
<b>Functions/Programs</b>					
<b>Primary government:</b>					
Instructional services	\$ 2,487,560	\$ 867,172	\$ 62,810	\$	(1,557,578)
Supporting services:					
Student services	-	-	-		-
School administration	657,319	-	-		(657,319)
Operation & maintenance of facility	500,457	-	-		(500,457)
Transportation	225,502	-	-		(225,502)
Special education	907,582	-	161,610		(745,972)
Vocational education	127,698	-	60,642		(67,056)
Community service programs	96,458	-	-		(96,458)
Extracurricular programs	144,445	26,568	-		(117,877)
School lunch services	178,226	72,299	42,471		(63,456)
Unallocated depreciation	87,639	-	-		(87,639)
<b>Total governmental activities</b>	<b>\$ 5,412,886</b>	<b>\$ 966,039</b>	<b>\$ 327,533</b>		<b>(4,119,314)</b>
General revenues:					
Property taxes					535,057
Unrestricted Federal/State shared revenues					3,365,532
Unrestricted investment earnings					1,175
Miscellaneous					21,050
<b>Total general revenues</b>					<b>3,922,814</b>
Change in net position					<b>(196,500)</b>
Total net position - July 1, 2016 - as previously reported					<b>1,624,206</b>
Prior period restatements					<b>-</b>
Total net position - July 1, 2016 - as restated					<b>1,624,206</b>
Total net position - June 30, 2017					<b>\$ 1,427,706</b>

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

**BEACH PUBLIC SCHOOL DISTRICT NO. 3**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2017**

Description	Major Fund		Total Governmental Funds
	General	Food Service	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,013,333	\$ 10,387	\$ 1,023,720
Tax/assessment receivable	41,264	-	41,264
Due from other governments	311,494	-	311,494
Accounts receivable	2,950	-	2,950
<b>Total Assets</b>	<b>1,369,041</b>	<b>10,387</b>	<b>1,379,428</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - property taxes	41,264	-	41,264
<b>FUND BALANCES</b>			
Assigned	-	10,387	10,387
Unassigned	1,327,777	-	1,327,777
<b>Total fund balances</b>	<b>1,327,777</b>	<b>10,387</b>	<b>1,338,164</b>
<b>Total deferred inflows of resources and fund balances</b>	<b>\$ 1,369,041</b>	<b>\$ 10,387</b>	

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.	4,738,193
Certain property tax collections are not available to pay current-period expenditures and therefore are reported as deferred inflows of resources in the funds.	41,264
Long-term liabilities, including bonds payable and pensions, are not due and payable in the current period and therefore are not reported in the funds.	(4,689,915)
<b>Total Net Position of Governmental Activities</b>	<b>\$ 1,427,706</b>

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



**BEACH PUBLIC SCHOOL DISTRICT NO. 3**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**Fiscal Year Ended June 30, 2017**

Description	General	Major Fund Food Service	Total Governmental Funds
<b>REVENUES</b>			
Property taxes	\$ 534,056	\$ -	\$ 534,056
Earnings on investments	1,175	-	1,175
School lunch sales	-	72,299	72,299
Other local sources	1,257,103	-	1,257,103
State aid	2,880,439	504	2,880,943
Federal aid	427,842	41,967	469,809
<b>Total Revenues</b>	<b>5,100,615</b>	<b>114,770</b>	<b>5,215,385</b>
<b>EXPENDITURES</b>			
Current:			
Instructional services	2,243,689	-	2,243,689
Supporting services			
Student services	-	-	-
School administration	657,319	-	657,319
Operation & Maintenance of facilities	496,423	-	496,423
Transportation	179,828	-	179,828
Special education	907,582	-	907,582
Community service programs	96,458	-	96,458
Vocational programs	127,698	-	127,698
Extracurricular programs	144,445	-	144,445
Food services	63,843	114,383	178,226
<b>Total Expenditures</b>	<b>4,917,285</b>	<b>114,383</b>	<b>5,031,668</b>
<b>Excess of revenues (under) expenditures</b>	<b>183,330</b>	<b>387</b>	<b>183,717</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Bond Proceeds	-	-	-
Transfers In	-	-	-
Transfers Out	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>183,330</b>	<b>387</b>	<b>183,717</b>
<b>Fund balances - July 1, 2016 - as previously reported</b>	<b>1,144,447</b>	<b>10,000</b>	<b>1,154,447</b>
<b>Prior period adjustments</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balances - July 1, 2016 - as restated</b>	<b>1,144,447</b>	<b>10,000</b>	<b>1,154,447</b>
<b>Fund balances - June 30, 2017</b>	<b>\$ 1,327,777</b>	<b>\$ 10,387</b>	<b>\$ 1,338,164</b>

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

**BEACH PUBLIC SCHOOL DISTRICT NO. 3  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Fiscal Year Ended June 30, 2017**

<b>Net change in fund balances - total governmental funds (page 7)</b>	<b>\$ 183,717</b>
Amounts reported for governmental activities in the statement of activities (page 5) are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets purchased	-
Depreciation expense	(137,347)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Unavailable property taxes	1,001
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	
Pension expense GASB 68	(226,747)
Accrued compensated absences	(17,124)
	<hr/>
<b>Change in Net Position in Governmental Activities</b>	<b><u><u>\$ (196,500)</u></u></b>

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

**BEACH PUBLIC SCHOOL DISTRICT NO. 3**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**June 30, 2017**

Description	Private Purpose Trust Funds	Agency Funds
		Agency Composite
<b>ASSETS</b>		
Cash and cash equivalents	\$ 121,473	\$ 46,783
<b>Total Assets</b>	<b>121,473</b>	<b>46,783</b>
<b>LIABILITIES</b>		
Due to students	-	46,783
<b>Total Liabilities</b>	<b>-</b>	<b>\$ 46,783</b>
<b>NET POSITION</b>		
Held in trust for scholarships	<u>\$ 121,473</u>	

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

**BEACH PUBLIC SCHOOL DISTRICT NO. 3**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**Fiscal Year Ended June 30, 2017**

Description	Private Purpose Trust Funds
<b>ADDITIONS:</b>	
Investment earnings	\$ 11
<b>Total Additions</b>	<u>11</u>
<b>DEDUCTIONS:</b>	
Scholarships awarded	<u>1,844</u>
<b>Total Deductions</b>	<u>1,844</u>
Change in net position	<u>(1,833)</u>
Net position - July 1, 2016	123,306
Net position - June 30, 2017	<u><u>\$ 121,473</u></u>

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

**BEACH PUBLIC SCHOOL DISTRICT NO. 3  
BEACH, NORTH DAKOTA**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**1. Summary of Significant Accounting Principles**

The accompanying financial statements of the Beach Public School District No. 3 (District) have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the District's more significant accounting policies follows.

**Reporting Entity**

The District is a special purpose government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. In evaluating how to define the District for financial reporting purposes, management has identified no potential component units. The decision to include a potential component unit in the reporting entity would have been made by applying criteria set forth in accounting principles generally accepted in the United States of America. Generally, component units are legally separate organizations for which the elected officials of the primary government (i.e., the District) are financially accountable. The primary government is financially accountable for a potential component unit if it: appoints a voting majority of the potential component unit's governing body; and, either is able to impose its will on the potential component unit or there is a possibility of the potential component unit to provide specific financial benefits to, or impose specific financial burdens on the primary government. In addition, a primary government may be financially accountable for a potential component unit even though the potential component unit may have a separately elected governing board, a board appointed by another government, or a jointly appointed board if the potential component unit is fiscally dependent on the primary government (e.g., the primary government must approve the potential component unit's budget, tax rates, etc.). Because no potential component units were identified in defining the District's reporting entity, none have been included in the District's reporting entity. Consequently, the District's financial statements present only the funds of those organizational entities for which its elected governing board is financially accountable.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of Interfund activity has been removed from these statements. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from

1. **Summary of Significant Accounting Principles – cont.**

*business-type activities*, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the fiscal year.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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 imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due.

Property taxes, intergovernmental grants and aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

1. **Summary of Significant Accounting Principles – cont.**

The District reports the following major governmental funds:

*Major Governmental Funds*

General Fund - This is the District's primary operating fund and it accounts for all financial resources of the District, except those required to be accounted for in other funds.

Food Service Fund – Accounts for operations of the lunch programs that are financed and operated in a manner similar to private business enterprises. That is, the stated intent is that the cost (expenses, including depreciation and indirect costs) of providing food services to the students are financed or recovered primarily through user charges.

The District reports the following fund types:

Trust Funds – The District also has a private-purpose trust fund, its student activity fund, which accounts for the extracurricular activities of its students.

**Encumbrances**

All appropriations, except for construction in progress, lapse at the end of the fiscal year. The District does utilize a formal encumbrance accounting system. Encumbrance accounting, which is an extension of the budgetary accounting in the General, Special Revenue, and Capital Projects Funds, enables the District to record purchase orders, contracts, and other commitments for the expenditure of monies in order to reserve that portion of the applicable appropriation. Encumbrances at year end are shown as expenditures in the budget-to-actual statements and as non-spendable fund balance on the balance sheet. The encumbrances have been recorded as expenditures since they meet the “valid obligation criteria”. The valid obligation criteria are:

1. The cost of personal property including materials, supplies, and equipment ordered, but not received, may be encumbered if a valid purchase order was issued prior to June 30.
2. The cost of commitments related to construction in progress may be encumbered if a legally binding contract was signed and effective or a valid purchase order was issued prior to June 30. If the contract is complete or virtually complete, the entire cost of the contract should be accrued.

As of June 30, 2017, the District incurred \$0 encumbrances.

1. **Summary of Significant Accounting Principles – cont.**

**Cash and Cash Equivalents**

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.

For purposes of the statement of cash flows, the District considers all investments of the nonexpendable fund types to be highly liquid investments and therefore, cash equivalents.

**Fund Balance Reserves and Designations**

Implementation of GASB 54 is required for fiscal years beginning after June 15, 2010. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the District's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and the principal (corpus) of an endowment fund. The District does not have any inventories or prepaid items or nonspendable funds related to endowments.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances based on a hierarchy of spending constraints.

- Restricted: Fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: Fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- Assigned: Fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: Fund balance of the General Fund that is not constrained for any particular purpose.

The District has classified its fund balances with the following hierarchy:

Spendable: The District has classified the spendable fund balances as Restricted, Committed, Assigned, and Unassigned and considered each to have been spent when expenditures are incurred.



1. **Summary of Significant Accounting Principles – cont.**

- **Assigned for Food Service:**  
Federal laws and North Dakota statutes require that certain revenues be specifically designed for the purposes of food service. The funds have been included in the assigned category of fund balance. The assigned fund balances totaled \$10,387 and is represented in the Food Service Fund.
- **Unassigned:**  
The unassigned fund balance for the General Fund is \$1,327,777.

**Net Position**

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**Interfund Transactions**

Interfund transactions are either reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided deemed to be at market or near market rates are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are eliminated in the government-wide financial statements.

**Capital Assets**

Capital assets are carried at actual or estimated historical cost based on appraisals. Major additions and betterments with a cost in excess of \$5,000 are recorded as additions to capital assets. Repair and maintenance costs are not capitalized. Depreciation is computed using the straight-line method and the estimated useful lives are as follows:

Buildings and improvements	40-90 years
Equipment	10-20 years

1. **Summary of Significant Accounting Principles – cont.**

**Taxes**

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts. Management does not believe that the accounting method being used results in any material differences.

**Vacation and Sick Leave**

Liabilities incurred because of unused personal and sick leave accumulated by employees, which is payable upon termination, are reflected in the financial statements. Expenditures for these liabilities are recognized when paid.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

2. **Taxes Receivable**

Taxes receivable consist of delinquent uncollected taxes at December 31.

Property tax revenue is recognized in compliance with the National Council on Government Accounting (NCGA) Interpretation 3, "Revenue Recognition-Property Taxes". This interpretation states that property tax revenue is recorded when it becomes available. Available means then due, or past due and receivable within the current period, and collected within the current period, or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Since no material taxes are collected within the time period, taxes receivable are recorded as deferred inflow of resources.

Property taxes attach as an enforceable lien on property on January 1. A 5% reduction is allowed if paid by February 15<sup>th</sup>. Penalty and interest are added March 1<sup>st</sup>, unless the first half of the taxes has been paid. Additional penalties are added October 15<sup>th</sup> if not paid.

3. **Cash and Cash Equivalents**

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,

3. **Cash and Cash Equivalents – cont.**

instrumentalities, or organizations created by an act of Congress, b) Securities sold under agreements to repurchase written by a financial institution 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) Certificates of Deposit, savings deposits, or other deposits fully insured or guaranteed by the Federal Deposit Insurance Corporation and placed for the benefit of the public depositor by a public depository through an appropriate deposit placement service as determined by the commissioner of financial institutions, e) State and local securities, and f) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in two hundred seventy days or less.

At June 30, 2017, the carrying amount of the District's deposits (cash and money markets) was \$1,023,720 and the bank balance was \$1,149,172. The entire bank balance throughout the year was covered by Federal Depository Insurance or by collateral held by the pledging financial institution's trust department or agent in the District's name. The deposits were deemed collateralized under North Dakota law during the year.

**Concentration of Credit Risk**

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. All of the deposits held in the District's name are authorized by the State of North Dakota.

**Custodial Credit Risk**

The investment policy of the District does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits other than the provision of state law.

Custodial risk for deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

**Interest Rate**

The District has no interest rate risk of debt securities.

4. **Amounts Due From Other Governments**

The amounts due from other governments consist of the following:

Due from State	\$	176,297
Due from Other Districts		113,311
Due from County Treasurer		21,886
	\$	<u>311,494</u>

5. **Pending Litigation**

There was no pending or threatened litigation or unasserted claims or assessments against the District.

6. **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

7. **Commitments**

The School District is committed under an operating lease for five copy machines. Lease payments for 2016-2017 were \$14,601. The lease expires July 31, 2018.

8. **Long-term Debt**

**Compensated Absences**

Compensated absences payable represents personal leave and sick leave earned by employees which is payable upon termination. The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions.

	Beginning Balance	Additions	Reductions	Ending Balance
Personal & sick leave	\$ 83,198	\$ 17,124	\$ -	\$ 100,322
Retirement	5,003,020	738,387	-	5,741,407
Total	<u>\$ 5,086,218</u>	<u>\$ 755,511</u>	<u>\$ -</u>	<u>\$ 5,841,729</u>

See note on retirement plans.

9. **Accounts Receivable**

Accounts receivable consists of amounts on open account from other school districts and organizations for goods and services furnished by the School District. No allowance has been established for uncollectible accounts.

10. **Accounts Payable**

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

## 11. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 121,100	\$ -	\$ -	\$ 121,100
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	121,100	-	-	121,100
Capital assets, being depreciated:				
Buildings and improvements	\$ 6,281,068	\$ -	\$ -	\$ 6,281,068
Furniture and equipment	839,201	-	-	839,201
Total capital assets, being depreciated	7,120,269	-	-	7,120,269
Accumulated depreciation for:				
Buildings and improvements	(2,111,704)	(88,953)	-	(2,200,657)
Furniture and equipment	(254,125)	(48,394)	-	(302,519)
Total accumulated depreciation	(2,365,829)	(137,347)	-	(2,503,176)
Total capital assets, being depreciated, net	4,754,440			4,617,093
Governmental activities capital assets, net	\$ 4,875,540			\$ 4,738,193
Depreciation expense was charged to:				
Transportation	\$ 45,674			
Operations & Maintenance	4,034			
Unallocated	87,639			
	\$ 137,347			

## 12. Statewide Retirement Plans

### North Dakota Teachers Fund for Retirement

#### **Summary of Significant Accounting Policies**

*Pensions.* For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers Fund for Retirement (TFFR) and 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 the Pension Plan**

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.

## **12. Statewide Retirement Plans – cont.**

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

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

### ***Pension Benefits***

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

#### ***Tier 1 Grandfathered***

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

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

## 12. Statewide Retirement Plans – cont.

### *Tier 1 Non-grandfathered*

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

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

### *Tier 2*

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

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

### ***Death and Disability Benefits***

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

## **12. Statewide Retirement Plans – cont.**

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

### ***Member and Employer Contributions***

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

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

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

At June 30, 2017, the Employer reported a liability of \$4,821,611 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2016, the Employer's proportion was 0.32910704 percent, which was a decrease of 0.00733496 from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Employer recognized pension expense of \$407,234. At June 30, 2017, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:



12. Statewide Retirement Plans – cont.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 22,772	\$ 22,829
Changes of assumptions	402,744	-
Net difference between projected and actual earnings on pension plan investments	400,806	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	223,403
Employer contributions subsequent to the measurement date	267,035	-
Total	<u>\$ 1,093,357</u>	<u>\$ 246,232</u>

\$1,093,357 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, 2018.

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

**Year ended June 30:**

2018	\$ 106,506
2019	106,506
2020	204,444
2021	143,124
2022	35,548
Thereafter	(16,037)

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

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

## 12. Statewide Retirement Plans – cont.

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

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

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

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

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

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

## 12. Statewide Retirement Plans – cont.

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Employer's proportionate share of the net pension liability	\$ 6,253,992	\$ 4,821,611	\$ 3,628,573

**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](http://www.nd.gov/rio/sib/publications/cafr/default.htm).

### North Dakota Public Employees Retirement System (Main System)

#### **Summary of Significant Accounting Policies**

**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.

## 12. Statewide Retirement Plans – cont.

### **General Information about the Pension Plan**

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

### ***Pension Benefits***

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

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

**12. Statewide Retirement Plans – cont.**

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

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

***Refunds of Member Account Balance***

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

***Member and Employer Contributions***

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. 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 1% of monthly salary or \$25
- 13 to 24 months of service – Greater of 2% of monthly salary or \$25
- 25 to 36 months of service – Greater of 3% of monthly salary or \$25
- Longer than 36 months of service – Greater of 4% of monthly salary or \$25

12. **Statewide Retirement Plans – cont.**

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

At June 30, 2017, the Employer reported a liability of \$919,796 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2016, the Employer's proportion was 0.094377 percent, which was an increase of 0.005721 from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Employer recognized pension expense of \$67,718. At June 30, 2017, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 13,817	\$ 8,517
Changes of assumptions	84,793	45,695
Net difference between projected and actual earnings on pension plan investments	128,324	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	68,316	-
Employer contributions subsequent to the measurement date	63,651	-
Total	<u>\$ 358,901</u>	<u>\$ 54,212</u>

\$358,901 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, 2018.

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

## 12. Statewide Retirement Plans – cont.

### Year ended June 30:

2017	\$ 46,757
2018	46,757
2019	74,750
2020	53,364
2021	19,410
Thereafter	-

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

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, 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 actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2016 funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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

## 12. Statewide Retirement Plans – cont.

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

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

**Sensitivity of the 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 8 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 (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employer's proportionate share of the net pension liability	\$ 1,304,713	\$ 919,796	\$ 595,483

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



**13. Risk Management**

Beach Public School District No. 3 is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters.

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The School District pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile liability and \$9,500 for inland marine coverage.

The School District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The School District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12-month period. The State Bonding Fund currently provides the School District with blanket fidelity bond coverage in the amount of \$1,300,000 for its employees. 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 and purchases commercial insurance for employee health and accident insurance.

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

The School District pays for a single health insurance policy for full time employees. Employees may purchase a family insurance plan and pay the difference in premium.

**14. Subsequent Events**

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through September 1, 2017, which is the date these financial statements were available to be issued.

**REQUIRED  
SUPPLEMENTAL INFORMATION**

**BEACH PUBLIC SCHOOL DISTRICT NO. 3**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual**  
**General Fund**  
**Year Ended June 30, 2017**

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>Revenues:</b>				
Property taxes	\$ 507,000	\$ 507,000	\$ 534,056	\$ 27,056
Earnings on investments	900	900	1,175	275
Other local sources	1,181,649	1,181,649	1,257,103	75,454
State aid	2,880,581	2,880,581	2,880,439	(142)
Federal aid	537,760	561,624	427,842	(133,782)
Total revenues	<u>5,107,890</u>	<u>5,131,754</u>	<u>5,100,615</u>	<u>(31,139)</u>
<b>Expenditures:</b>				
Instructional services	2,005,450	2,005,450	2,243,689	(238,239)
School administration	676,327	676,327	657,319	19,008
Operation and maintenance of facilities	428,276	428,276	496,423	(68,147)
Transportation	182,629	182,629	179,828	2,801
Special Education	1,442,608	1,462,363	907,582	554,781
Community service programs	99,781	99,781	96,458	3,323
Vocational programs	142,836	142,836	127,698	15,138
Extracurricular programs	171,905	171,905	144,445	27,460
Food services	98,423	98,423	63,843	34,580
Total expenditures	<u>5,248,235</u>	<u>5,267,990</u>	<u>4,917,285</u>	<u>350,705</u>
Excess of revenues over (under) expenditures	<u>(140,345)</u>	<u>(136,236)</u>	<u>183,330</u>	<u>319,566</u>
<b>Other financing sources (uses):</b>				
Transfer In	-	-	-	-
Transfer Out	-	-	-	-
Total other financing sources (uses):	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	\$ <u>(140,345)</u>	\$ <u>(136,236)</u>	183,330	\$ <u>319,566</u>
Fund balances - beginning - Budget and GAAP basis			<u>1,144,447</u>	
Fund balances - ending - Budget and GAAP basis			\$ <u>1,327,777</u>	

See notes to required supplementary information

**BEACH PUBLIC SCHOOL DISTRICT NO. 3**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual**  
**Food Service Fund**  
Year Ended June 30, 2017

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>Revenues:</b>				
School lunch sales	\$ 74,000	\$ 74,000	\$ 72,299	\$ (1,701)
State aid	1,500	1,500	504	(996)
Federal aid	50,000	50,000	41,967	(8,033)
Total revenues	<u>125,500</u>	<u>125,500</u>	<u>114,770</u>	<u>(10,730)</u>
<b>Expenditures:</b>				
Food service	117,830	117,830	114,383	3,447
Total expenditures	<u>117,830</u>	<u>117,830</u>	<u>114,383</u>	<u>3,447</u>
Excess of revenues over (under) expenditures	<u>7,670</u>	<u>7,670</u>	<u>387</u>	<u>(7,283)</u>
<b>Other financing sources (uses):</b>				
Transfer In	-	-	-	-
Transfer Out	-	-	-	-
Total other financing sources (uses):	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	\$ <u>7,670</u>	\$ <u>7,670</u>	387	\$ <u>(7,283)</u>
Fund balances - beginning - Budget and GAAP basis			<u>10,000</u>	
Fund balances - ending - Budget and GAAP basis			\$ <u>10,387</u>	

See notes to required supplementary information

**BEACH PUBLIC SCHOOL DISTRICT NO. 3  
BEACH, NORTH DAKOTA  
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**

JUNE 30, 2017

**Budgets**

Based upon available financial information and requests by the governing board, the Business Manager prepares the preliminary budget. The School District budget is prepared for the General Fund by function and activity on the modified accrual basis of accounting. The preliminary budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year end.

The governing board holds a public hearing where any taxpayer may testify in favor of, or against, any proposed disbursements or tax levies requested in the preliminary budget. After the hearing, and on or before August 15, the Board adopts the final budget. The final budget must be filed with the County Auditor by August 25. The governing board may amend the budget during the year for any revenues and budget amendments and must be approved by the Board and the approval must be noted in the official proceedings of the Board.

**Budget Amendments**

By approved motions of the Board of Trustees, the budget for the General Fund was amended:

	Original Budget	Change	Final Budget
Revenue	\$ 5,107,890	\$ 23,864	\$ 5,131,754
Expenses	\$ 5,248,235	\$ 19,755	\$ 5,267,990

**Retirement Plans - ND Teachers Fund for Retirement**

**Schedule of Employer's Share of Net Pension Liability  
Last 10 Fiscal years\***

	2017	2016	2015
1. Employer's proportion of the net pension liability (asset)	0.32910704%	0.336442%	0.354566%
2. Employer's proportionate share of the net pension liability (asset)	\$ 4,821,611	\$ 4,400,174	\$ 3,715,223
3. Employer's covered-employee payroll	\$ 2,138,290	\$ 2,069,473	\$ 2,056,674
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	225.49%	212.62%	180.64%
5. Plan fiduciary net position as a percentage of the total pension liability	59.2%	62.1%	66.6%

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

**Notes to Required Supplemental Information – cont.**  
**Retirement Plans - ND Teachers Fund for Retirement – cont.**

**Schedule of Employer Contributions**  
**Last 10 Fiscal years\***

	2017	2016	2015
Statutorily required contribution	\$ 272,632	\$ 263,845	\$ 221,090
Contributions in relation to the statutorily required contribution	\$ (277,632)	\$ (263,845)	\$ (221,090)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Employer's covered-employee payroll	\$ 2,138,290	\$ 2,069,473	\$ 2,056,674
Contributions as a percentage of covered-employee payroll	12.75%	12.75%	10.75%

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

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

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

**Notes to Required Supplemental Information – cont.**

**Retirement Plans - ND Public Employees Retirement System**

**Schedule of Employer's Share of Net Pension Liability  
Last 10 Fiscal Years\***

	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.094377%	0.088656%	0.081139%
Employer's proportionate share of the net pension liability (asset)	\$ 919,796	\$ 602,846	\$ 515,007
Employer's covered-employee payroll	\$ 951,102	\$ 789,817	\$ 683,497
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	96.70%	76.32%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	70.46%	77.15%	72.52%

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

**Schedule of Employer Contributions  
Last 10 Fiscal Years\***

	2017	2016	2015
Statutorily required contribution	\$ 68,858	\$ 59,993	\$ 55,458
Contributions in relation to the statutorily required contribution	\$ 67,514	\$ (56,427)	\$ (65,462)
Contribution deficiency (excess)	\$ 1,344	\$ 3,566	\$ (10,004)
Employer's covered-employee payroll	\$ 951,102	\$ 789,817	\$ 683,497
Contributions as a percentage of covered-employee payroll	7.10%	7.6%	9.58%

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

***Changes of assumptions.***

Amounts reported in 2017 reflect actuarial assumption changes effective July 1, 2016 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.

## **SUPPLEMENTAL INFORMATION**





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## **James J. Wosepka, PC – Certified Public Accountant**

Licensed in North Dakota and Montana

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

To the Board of Trustees  
Beach Public School District No. 3  
Beach, North Dakota 58621

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 Beach Public School District No. 3, Beach, North Dakota, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Beach Public School District No. 3, Beach North Dakota's basic financial statements, and have issued our report thereon dated September 1, 2017.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Beach Public School District No. 3, Beach, North Dakota's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Beach Public School District No. 3, Beach, North Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of Beach Public School District No. 3, Beach, North Dakota'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. 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.


### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Beach Public School District No. 3, Beach, North Dakota'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*.

### **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.

James J. Wosepka, PC

By  CPA

Beach, North Dakota  
September 1, 2017