



Financial Statements
June 30, 2016

Belcourt Public School District #7

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Members of the School Board
Belcourt Public School District #7
Belcourt, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Belcourt Public School District #7, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Belcourt Public School District #7, as of June 30, 2016, and the respective changes in financial position – modified cash basis thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to that matter.

Other Matters**Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Belcourt Public School District #7's financial statements. The Schedule of Employer's Share of Net Pension Liability, Schedule of Employer's Contributions, and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the financial statements.

The Schedule of Employer's Share of Net Pension Liability, Schedule of Employer's Contributions, the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Employer's Share of Net Pension Liability, Schedule of Employer's Contributions, the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 30, 2017 on our consideration of Belcourt Public School District #7's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Belcourt Public School District #7's internal control over financial reporting and compliance.

Eide Bailly LLP

Bismarck, North Dakota
March 30, 2017

Belcourt Public School District #7
Statement of Net Position – Modified Cash Basis
June 30, 2016

	<u>Governmental Activities</u>
Assets	
Current Assets	
Cash	\$ 5,731,967
Certificate of deposit	1,231,977
Total current assets	<u>6,963,944</u>
Non-Current Assets	
Capital assets (net of accumulated depreciation)	
Buildings	3,160,811
Equipment	1,459,970
Vehicles	1,434,699
Total capital assets	<u>6,055,480</u>
Total assets	<u>13,019,424</u>
Net Position	
Net investment in capital assets	6,055,480
Unrestricted	<u>6,963,944</u>
Total net position	<u><u>\$ 13,019,424</u></u>

Belcourt Public School District #7
Statement of Activities – Modified Cash Basis
Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental activities				
Instruction	\$ 13,734,140	\$ -	\$ 6,133,840	\$ (7,600,300)
Tuition	426,059	-	-	(426,059)
Support Services	5,789,388	-	410,640	(5,378,748)
Operation and Maintenance	874,075	-	-	(874,075)
Transportation	1,580,854	-	720,857	(859,997)
Extracurricular	1,256,479	-	-	(1,256,479)
Community service	193,228	-	-	(193,228)
Food service	1,687,576	53,593	1,084,171	(549,812)
Interest on long-term debt	5,638	-	-	(5,638)
Total governmental activities	\$ 25,547,437	\$ 53,593	\$ 8,349,508	(17,144,336)
General Revenues				
State aid not restricted for specific purpose				
Per pupil aid				12,978,588
Federal aid not restricted for a specific purpose				
Impact aid				276,918
BIA Education Grant				4,104,100
Other federal aid				143,951
Interest income				24,949
Miscellaneous				2,505
Total general revenues				17,531,011
Change in Net Position				386,675
Net Position - Beginning of Year				12,632,749
Net Position - End of Year				\$ 13,019,424

Belcourt Public School District #7
 Balance Sheet – Governmental Funds – Modified Cash Basis
 June 30, 2016

	<u>General Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
Assets			
Current assets			
Cash	\$ 5,635,926	\$ 96,041	\$ 5,731,967
Certificate of deposit	1,231,977	-	1,231,977
Total Assets	<u>\$ 6,867,903</u>	<u>\$ 96,041</u>	<u>\$ 6,963,944</u>
Fund Balances			
Assigned - Food Service	\$ -	\$ 96,041	\$ 96,041
Unassigned	6,867,903	-	6,867,903
Total Fund Balances	<u>\$ 6,867,903</u>	<u>\$ 96,041</u>	<u>\$ 6,963,944</u>

Belcourt Public School District #7

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position – Modified Cash Basis
June 30, 2016

Total fund balance for governmental funds	\$ 6,963,944
Total net position reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. Those assets consist of:	
Buildings, net of accumulated depreciation	3,160,811
Equipment, net of accumulated depreciation	1,459,970
Vehicles, net of accumulated depreciation	<u>1,434,699</u>
Net position of governmental activities in the statement of net position	<u><u>\$ 13,019,424</u></u>

Belcourt Public School District #7

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Modified Cash Basis
Year Ended June 30, 2016

	General Fund	Other Governmental Fund	Total Governmental Funds
Revenues			
Local sources	\$ 27,454	\$ 53,593	\$ 81,047
State sources	14,011,842	12,123	14,023,965
Federal sources	10,726,352	1,072,048	11,798,400
Other sources	30,700	-	30,700
Total revenues	<u>24,796,348</u>	<u>1,137,764</u>	<u>25,934,112</u>
Expenditures			
Instruction			
Regular	3,483,604	-	3,483,604
Special education	1,084,569	-	1,084,569
Federal programs	8,008,056	-	8,008,056
Vocation education	690,722	-	690,722
Tuition	426,059	-	426,059
Support Services			
Pupil services	932,711	-	932,711
Instructional staff services	919,988	-	919,988
General administration services	1,209,672	-	1,209,672
School administration services	798,419	-	798,419
Business services	581,747	-	581,747
Other support services	1,292,491	-	1,292,491
Operations and maintenance	767,416	-	767,416
Pupil transportation services	1,580,854	-	1,580,854
Extracurricular	1,256,479	-	1,256,479
Food services	173,094	1,514,482	1,687,576
Community service	193,228	-	193,228
Debt Service			
Principal	125,000	-	125,000
Interest	5,638	-	5,638
Capital Outlay	640,570	-	640,570
Total expenditures	<u>24,170,317</u>	<u>1,514,482</u>	<u>25,684,799</u>
Revenues Over (Under) Expenditures	626,031	(376,718)	249,313
Other Financing Sources (Uses)			
Transfers in (out)	(318,670)	318,670	-
Net Change in Fund Balance	307,361	(58,048)	249,313
Fund Balances, Beginning of Year	<u>6,560,542</u>	<u>154,089</u>	<u>6,714,631</u>
Fund Balances, End of Year	<u>\$ 6,867,903</u>	<u>\$ 96,041</u>	<u>\$ 6,963,944</u>

Belcourt Public School District #7

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities – Modified Cash Basis
Year Ended June 30, 2016

Net change in fund balances - total governmental funds		\$ 249,313
The change in net position reported for governmental activities in the statement of activities is different because:		
<p style="margin-left: 40px;">Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>		
Repayment of principal on long-term debt		125,000
<p style="margin-left: 40px;">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. In the current period, these amounts are:</p>		
Capital outlay	\$ 640,570	
Depreciation expense	(628,208)	
		12,362
Change in net position of governmental activities		\$ 386,675

Belcourt Public School District #7
Statement of Fiduciary Net Position – Modified Cash Basis
June 30, 2016

	<u>Student Activity Fund</u>
Assets	
Cash and cash equivalents	<u>\$ 52,353</u>
Liabilities	
Due to student activities	<u>\$ 52,353</u>

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Belcourt Public School District #7 operates the public schools in the city of Belcourt, North Dakota. The District's basic financial statements include the accounts of all the District's operations.

The reporting entity of the Belcourt Public School District #7 consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Government-Wide Statements

The statement of net position and statement of activities display information about the School District. These statements include the financial activities of the overall government, except for fiduciary activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. The effect of interfund activity has been eliminated from the government-wide financial statements.

The statement of net position reports all financial and capital resources, in a net position form (assets minus liabilities equal net position). Net position is displayed in three components, as applicable, net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

The statement of activities compares the direct expenses and program revenues for the governmental activities of the District. Direct expenses are clearly identifiable with a specific function. Program revenues consist of operating grants and contributions. General revenues, including taxes, are those revenues that are not classified as program revenue.

Fund Financial Statements

The fund financial statements provide detailed information for governmental funds. The fund statement's emphasis is on major governmental funds.

Measurement Focus, Basis of Accounting, Non-Exchange transactions, and Financial Statement Presentation

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The government-wide financial statements are reported using the modified cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred.

This basis differs from accounting principles generally accepted in the United States of America because accounts receivable, accounts payable and accrued expenses are not included in the financial statements. Only capital assets and long-term debt are recorded under the basis of accounting described above. They are included on the statement of net position. 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.

Non-exchange transactions include transactions in which the District receives value without directly providing value in return. Non-exchange transactions include grants, entitlements, and donations. Under the modified cash basis of accounting the revenue from non-exchange transactions will be recorded.

The School District reports the following major governmental fund:

General Fund - The general fund is the general operating fund of the School District. All general revenue and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund.

The School District reports the following non-major special revenue fund:

Food Service Fund — Food service fund is used to account for the proceeds of food service revenue sources requiring separate accounting because of legal or regulatory provisions or administrative action.

The Fiduciary Fund accounts for assets held by the School District in a trustee capacity or as an agent on behalf of others.

The School District reports the following fiduciary fund:

Student Activity Fund – The student activity fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds have no equity, assets are equal to liabilities, and do not include revenues and expenditures for general operations of the School District.

Equity Classifications

Government-wide Statements

Equity is classified as net position and is displayed in three components:

Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

Unrestricted net position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Restricted and Unrestricted Resources

It is the School District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Fund Balance Classification Policies and Procedures

The School District classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Business Manager.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The School District uses *restricted* amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use *committed*, then *assigned*, and lastly *unassigned amounts* of unrestricted fund balance when expenditures are made.

The Government does not have a formal minimum fund balance policy.

Program Revenues

In the government-wide statement of activities, reported program revenues derive directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – these arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – these arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – these arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

Budgets and Budgetary Accounting

The School District budget is prepared on the modified cash basis and the School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent and Business Manager prepare the School District budget under the modified cash basis of accounting. The budget includes proposed expenditures and the means of financing them. The budget includes the general fund.
2. The School Board reviews the budget, may make revisions and approves it on or before August 15. The budget must be filed with the County Auditor by August 25.
3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared except no amendment changing the taxes levied can be made after October 10.
4. The balance of each appropriation becomes a part of the unappropriated balance at year-end.

For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year.

Cash and Cash Equivalents

The School District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. These amounts must be deposited in a financial institution situated and doing business within North Dakota.

Investment Policy

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, and d) obligations of the state.

Pension

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Teachers' Fund for Retirement (TFFR) and the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from TFFR and NDPERS's fiduciary net position have been determined on the same basis as they are reported by TFFR and NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability is not reported under the modified cash basis of accounting, but the information disclosed in the pension footnote, Note 6, is shown as additional information to the users of the financial statements.

Capital Assets

Fixed assets, which include property, plant, and equipment, are reported in the applicable governmental columns in the government-wide financial statements. Fixed assets are defined as having an individual cost of \$5,000 or more and have a useful life in excess of one year. Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	15-50 years
Equipment	5-20 years
Vehicles	10 years

All buildings used by the School District in its operations are owned by the Bureau of Indian Affairs except those included in the School District's government-wide financial statements. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized and instead are a period expense.

Compensated Absences

Annual leave is compensated 100% upon termination of employment at the employee's current hourly rate. Sick leave is compensated at 50% of a maximum of 480 hours. For employees hired before July 1, 1988, with 10 years of service, the rate is set at the employee's current hourly rate. For employees hired after July 1, 1988, with 10 years of service, the rate is set at \$10.00 per hour. This commitment has not been recorded on the District's financial statements due to its utilization of the modified cash basis of accounting.

Long-Term Debt

In the district-wide financial statements, long-term debt and other long-term debt obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bond issuance costs are expensed when incurred.

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

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds.

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

Note 2 - Cash and Cash Equivalents

Deposits

In accordance with North Dakota Statutes, the school maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in another financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board.

At year ended June 30, 2016, the school's carrying amount of deposits was as follows:

Governmental activities	\$ 5,731,967
Agency funds	52,353
	\$ 5,784,320

The bank balances of these deposits were \$6,880,892. Of these bank balances, the School District was under-collateralized by \$324,397 to have pledges of securities equal to 110% of the deposits not covered by insurance or bonds. The remaining bank balances were covered by Federal Depository Insurance and securities held by the pledging financial institutions' agents in the government's name.

Interest Rate Risk

The School District does not have a formal investment policy that limits investments as a means of managing its exposure to fair value losses arising from changing interest rates. All investments are certificates of deposit that mature within one year.

Credit Risk

The school may invest idle funds as authorized in North Dakota Statutes, as follows:

- a) Bonds, treasury bills and notes, or other securities that are a direct 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 the type listed above.
- c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
- d) Obligations of the state.

As of June 30, 2016, the school district held certificates of deposit in the amount of \$1,231,977. All certificates of deposit mature within one year.

Concentration of Credit Risk

The school does not have a limit on the amount the district may invest in any one issuer.

Note 3 - Capital Assets

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

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets, being depreciated				
Buildings	\$ 4,256,184	\$ -	\$ -	\$ 4,256,184
Equipment	5,010,462	364,020	-	5,374,482
Vehicles	3,344,382	276,550	(57,044)	3,563,888
Total capital assets at historical cost	<u>12,611,028</u>	<u>640,570</u>	<u>(57,044)</u>	<u>13,194,554</u>
Less accumulated depreciation				
Buildings	1,008,049	87,324	-	1,095,373
Equipment	3,557,501	357,011	-	3,914,512
Vehicles	2,002,360	183,873	(57,044)	2,129,189
Total accumulated depreciation	<u>6,567,910</u>	<u>628,208</u>	<u>(57,044)</u>	<u>7,139,074</u>
Net capital assets	<u>\$ 6,043,118</u>	<u>\$ 12,362</u>	<u>\$ -</u>	<u>\$ 6,055,480</u>

Depreciation was charged to expense in the following governmental functions:

Instruction	\$ 467,189
Support Services	54,360
Operations and maintenance	<u>106,659</u>
Total depreciation expense	<u><u>\$ 628,208</u></u>

Note 4 - Long-Term Debt

The District entered into a Certificate of Indebtedness in 2015 with the North Dakota Municipal Finance Authority for \$1,045,000. The Certificate carries an interest rate of 4.51% and annual installments between \$100,000 and \$125,000 are due June 2016. As of June 30, 2016, the certificate of indebtedness has been paid off in full.

A summary of long-term debt transactions for the year ended June 30, 2016 follows:

	Certificate of Indebtedness
Balance June 30, 2015	\$ 125,000
Reductions	<u>(125,000)</u>
Balance June 30, 2016	<u><u>\$ -</u></u>

Note 5 - Interfund Transfers

Interfund transfers at June 30, 2016 were as follows:

	General Fund	Food Service Fund
Transfers In	\$ -	\$ 318,670
Transfers Out	(318,670)	-
	\$ (318,670)	\$ 318,670

The purpose of the transfers is to fund operations of the food service program.

Note 6 - Pension Plan

Plan Descriptions

The District participates in the following defined benefit pension plans:

North Dakota Teacher's Fund for Retirement (TFFR)

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

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

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

North Dakota Public Employees' Retirement System (NDPERS)

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

TFFR

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

Tier 1 Grandfathered

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

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

Tier 1 Non-grandfathered

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

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

Tier 2

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

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

NDPERS

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

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

Death and Disability Benefits

TFFR

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.

NDPERS

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

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

Refunds of Member Account Balance

TFFR

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.

NDPERS

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.

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 25 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

Member and Employer Contributions

TFFR

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.

NDPERS

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.

Net Pension Liability

TFFR

At June 30, 2016, the Employer's proportionate share of the net pension liability was \$17,093,432. The net pension liability was measured as of June 30, 2015, 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, 2015, the Employer's proportion was 1.306982 percent, which was a decrease of 0.034891 from its proportion measured as of June 30, 2014. The Employer's proportionate share of the net pension liability is not reported in financial statements shown under the modified cash basis of accounting.

NDPERS

At June 30, 2016, the Employer's proportionate share of the net pension liability was \$3,645,728. The net pension liability was measured as of June 30, 2015, 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 NDPERS employers. At June 30, 2015, the Employer's proportion was 0.53615 percent, which was a decrease of 0.037343 from its proportion measured as of June 30, 2014. The Employer's proportionate share of the net pension liability is not reported in financial statements shown under the modified cash basis of accounting.

Actuarial Assumptions

TFFR

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

For active and inactive members, mortality rates 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, 2015, 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equities	57%	7.5%
Global Fixed Income	22%	1.3%
Global Real Assets	20%	5.4%
Cash Equivalents	1%	0.0%

NDPERS

The total pension liability in the July 1, 2015 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, 2015, 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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

TFFR

The discount rate used to measure the total pension liability was 7.75% percent as of June 30, 2015. 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, 2015, 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, 2015. 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, 2015. The discount rate used to measure the total pension liability changed from 8% to 7.75% based on the investment return assumption change as a result of the April 30, 2015 actuarial experience study.

NDPERS

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2015. 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, 2015, 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, 2015. 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, 2015.

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 for TFFR and 8 percent for NDPERS, 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 or 1-percentage-point higher than the current rate:

	1% Decrease in Discount Rate (6.75% / 7.00%)	Discount Rate (7.75% / 8.00%)	1% Increase in Discount Rate (8.00% / 9.00%)
District's proportionate share of the TFFR net pension liability	\$ 22,589,778	\$ 17,093,432	\$ 12,509,595
District's proportionate share of the NDPERS net pension liability	\$ 5,590,542	\$ 3,645,728	\$ 2,054,519

Pension Plan Fiduciary Net Position

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

Note 7 - Risk Management

The Belcourt Public School District #7 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 for which the School District carries insurance through the following funds/pools established by the State:

In 1986 State agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRF), a public entity risk pool currently operating as a common risk management and insurance program for over 2,000 State agencies and political subdivisions. The Belcourt Public School District #7 pays an annual premium to NDRF for its general liability, auto, personal injury and property damage, errors and omissions, and inland marine insurance coverage. The coverage by NDRF is limited to losses of \$2,000,000 per occurrence.

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 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 \$4,800,000 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 \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The School District participates in the North Dakota Workforce Safety and Insurance Fund (WSI), 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 by premiums assessed to employers. The premiums are available 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 the past three fiscal years.

Note 8 - Operating Leases

On May 13, 2014 the District entered into a lease agreement with the Turtle Mountain Band of Chippewa Indians in Belcourt for the use of its facilities. The term of the lease runs from July 1, 2014 through June 30, 2017. For each year of the lease the District has agreed to make 11 monthly payments of \$2,000 and 1 monthly payment of \$3,000 for a total rent expense of \$25,000 per year.

The future minimum lease payments under the above operating lease at June 30, 2016, are as follows:

<u>Years Ending June 30</u>	
2017	<u>\$ 25,000</u>
Total	<u><u>\$ 25,000</u></u>

Note 9 - Economic Dependency

Belcourt Public School District #7 receives a substantial amount of its support from federal and state governments. A significant reduction in the level of this support, if this were to occur, may have a material effect on the District's programs and therefore on its continued operations.



Supplementary Information
June 30, 2016

Belcourt Public School District #7

Belcourt Public School District #7

**Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions
June 30, 2016**

<u>Pension Plan</u>	<u>Measurement Date</u>	<u>Employer's Proportion (Percentage) of the Net Pension Liability</u>	<u>Employer's Proportionate Share (Amount) of the Net Pension Liability (a)</u>	<u>Employer's Covered-Employee Payroll (b)</u>	<u>Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
TFFR	6/30/2014	1.341873%	\$ 14,060,450	\$ 7,783,579	180.64%	66.6%
TFFR	6/30/2015	1.306982%	\$ 17,093,432	\$ 8,039,312	212.62%	62.1%
NDPERS	6/30/2014	0.573493%	\$ 3,640,083	\$ 4,830,977	75%	77.7%
NDPERS	6/30/2015	0.536150%	\$ 3,645,728	\$ 4,776,443	76%	77.2%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available. Data presented is as of the measurement date.

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions in Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered - Employee Payroll (d)</u>	<u>Contributions as a Percentage of Covered - Employee Payroll (b/d)</u>
TFFR	6/30/2015	\$ 1,970,473	\$ (1,970,473)	\$ -	\$ 7,094,693	28%
TFFR	6/30/2016	\$ 2,036,153	\$ (2,036,153)	\$ -	\$ 8,310,826	25%
NDPERS	6/30/2015	\$ 738,703	\$ (738,703)	\$ -	\$ 4,840,780	15%
NDPERS	6/30/2016	\$ 757,624	\$ (757,624)	\$ -	\$ 4,964,770	15%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available. Data presented is as of the District's fiscal year-end.

**Notes to Supplementary Information
For the Year Ended June 30, 2016**

Changes of Assumptions

TFFR

Amounts reported in 2016 reflect the following actuarial assumption changes effective July 1, 2015 based on the results of an actuarial experience study dated April 30, 2015.

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

NDPERS

Amounts reported in 2016 reflect actuarial assumption changes effective July 1, 2015 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

Belcourt Public School District #7

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Local sources	\$ 47,300	\$ 47,300	\$ 27,454	\$ (19,846)
State sources	12,419,917	12,419,917	14,011,842	1,591,925
Federal sources	354,626	354,626	10,726,352	10,371,726
Other	12,000	12,000	30,700	18,700
Total revenues	<u>12,833,843</u>	<u>12,833,843</u>	<u>24,796,348</u>	<u>11,962,505</u>
Expenditures				
Instruction:				
Regular	3,503,036	3,523,296	3,483,604	39,692
Special education	1,031,968	1,079,359	1,084,569	(5,210)
Federal programs	9,466,619	9,886,257	8,008,056	1,878,201
Vocational education	783,947	783,947	690,722	93,225
Total instruction	<u>14,785,570</u>	<u>15,272,859</u>	<u>13,266,951</u>	<u>2,005,908</u>
Tuition	<u>391,000</u>	<u>391,000</u>	<u>426,059</u>	<u>(35,059)</u>
Support services				
Pupil services	915,492	915,492	932,711	(17,219)
Instructional staff services	1,193,773	1,291,959	919,988	371,971
General administration services	1,467,000	1,467,000	1,209,672	257,328
School administration services	782,878	782,878	798,419	(15,541)
Business services	647,834	668,092	581,747	86,345
Operations and maintenance	925,792	925,792	767,416	158,376
Student transportation	1,671,676	1,671,676	1,580,854	90,822
Extracurricular activities	1,345,529	1,345,540	1,256,479	89,061
Community services	195,780	195,780	193,228	2,552
Food service	150,806	150,806	173,094	(22,288)
Other support services	1,232,687	1,241,520	1,292,491	(50,971)
Debt Service				
Principal	125,000	125,000	125,000	-
Interest	5,650	5,650	5,638	12
Capital Outlay	841,406	841,406	640,570	200,836
Total support services	<u>11,501,303</u>	<u>11,628,591</u>	<u>10,477,307</u>	<u>1,151,284</u>
Total expenditures	<u>26,677,873</u>	<u>27,292,450</u>	<u>24,170,317</u>	<u>3,122,133</u>
Revenues Over (Under) Expenditures	(13,844,030)	(14,458,607)	626,031	15,084,638
Other Financing Uses				
Transfers out	<u>(500,000)</u>	<u>(500,000)</u>	<u>(318,670)</u>	<u>181,330</u>
Net Change in Fund Balance	(14,344,030)	(14,958,607)	307,361	15,265,968
Fund Balances, Beginning of Year	<u>6,560,542</u>	<u>6,560,542</u>	<u>6,560,542</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ (7,783,488)</u>	<u>\$ (8,398,065)</u>	<u>\$ 6,867,903</u>	<u>\$ 15,265,968</u>

Note 1 – Stewardship, Compliance and Accountability

Budgetary Information

The District adopts an annual budget on a basis consistent with a modified cash basis of accounting for the general fund and special revenue 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 15th day of August of each year.
- The taxes levied must be certified to the county auditor by August 25.
- 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.



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*

Members of the School Board
Belcourt Public School District #7
Belcourt, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Belcourt Public School District #7 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Belcourt Public School District #7's basic financial statements, and have issued our report thereon dated March 30, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Belcourt Public School District #7'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 Belcourt Public School District #7's internal control. Accordingly, we do not express an opinion on the effectiveness of Belcourt Public School District #7's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs listed as 2016-A and 2016-B to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Belcourt Public School District #7's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as item 2016-C.

Belcourt Public School District #7's Responses to Findings

Belcourt Public School District #7's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Belcourt Public School District #7's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.



Bismarck, North Dakota
March 30, 2017



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance for Each Major Federal Program; and Report on Internal Control over Compliance Required by the Uniform Guidance

Members of the School Board
Belcourt Public School District #7
Belcourt, North Dakota

Report on Compliance for Each Major Federal Program

We have audited Belcourt Public School District #7's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Belcourt Public School District #7's major federal programs for the year ended June 30, 2016. Belcourt Public School District #7's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for each of Belcourt Public School District #7's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Belcourt Public School District #7's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Belcourt Public School District #7's compliance.

Opinion on Each Major Federal Program

In our opinion, Belcourt Public School District #7 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

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Report on Internal Control over Compliance

Management of Belcourt Public School District #7 is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Belcourt Public School District #7's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Belcourt Public School District #7's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-001 that we consider to be a significant deficiency.

Belcourt Public School District #7's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Belcourt Public School District #7's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Eide Bailly LLP

Bismarck, North Dakota
March 30, 2017

Belcourt Public School District #7
Schedule of Expenditures of Federal Awards – Modified Cash Basis
Year Ended June 30, 2016

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-through Identifying Number	Expenditures
United States Department of Agriculture			
Passed through the State Department of Public Instruction			
Child Nutrition Cluster			
School Breakfast Program	10.553	1006	\$ 284,415
National School Lunch Program	10.555	1006	771,712
Summer Food Service	10.559	1006	28,781
Commodity assistance for schools (non-cash)	10.555	1006	71,392
Commodity assistance for schools (non-cash)	10.559	1006	2,903
Total Child Nutrition Cluster			<u>1,159,203</u>
Fresh Fruit and Vegetable Program	10.582		<u>51,190</u>
Total United States Department of Agriculture			<u>1,210,393</u>
Department of Education			
Direct Programs			
Title IX - Indian Ed	84.060A		396,662
Title VII - Impact Aid	84.041		317,638
Rural Education Grant Cluster			
Passed through the State Department of Public Instruction	84.358B	1019	35,263
Passed through the Turtle Mountain Band of Chippewa Indians	84.358B	A12AV01572	6,029
Total Rural Education Grant Cluster			<u>41,292</u>
IDEA B/Preschool Grant Cluster			
Passed through the Turtle Mountain Band of Chippewa Indians	84.027	A12AV01572	1,343,899
Passed through the State Department of Public Instruction	84.027	1019	76,278
Total IDEA B/Preschool Grant Cluster			<u>1,420,177</u>
Title I Cluster			
Passed through the State Department of Public Instruction:			
Program Aid	84.010	1019	2,236,340
Title I Program Improvement	84.010	1019	85,549
			<u>2,321,889</u>
Passed through the Turtle Mountain Band of Chippewa Indians	84.010	A12AV01572	997,073
Total Title I Cluster			<u>3,318,962</u>
Title II Part A - Improving Teacher Quality State Grants			
Passed through the State Department of Public Instruction	84.367A	N/A	315,917

Belcourt Public School District #7
Schedule of Expenditures of Federal Awards – Modified Cash Basis
Year Ended June 30, 2016

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Identifying Number</u>	<u>Expenditures</u>
Carl Perkins			
Passed through ND Department of Career and Technical Education	84.048A	N/A	133,758
Title II Part B - Visualizing Science, Technology, Engineering			
Passed through the University of North Dakota	84.366	N/A	7,103
IDEA C/Special Education - Grants for Infants and Families			
Passed through the Turtle Mountain Band of Chippewa Indians	84.181	A12AV01572	462,873
Title II Part A - Teach Quality Partnership Grants			
Passed through the Turtle Mountain Band of Chippewa Indians	84.336	A12AV01572	120,500
Title IV - 21st Century			
Passed through North Central Education Cooperative	84.287	N/A	<u>75,554</u>
Total Department of Education			<u>6,610,436</u>
Department of Interior			
Passed through the Turtle Mountain Band of Chippewa Indians			
Indian School Equalization Program	15.042	A12AV01572	4,081,100
Administrative Cost Grants for Indian Schools	15.046	A12AV01572	356,525
FOCUS on Student Achievement	15.149	A12AV01572	38,529
Education Program Enhancements	15.151	A12AV01572	<u>70,080</u>
Total Department of Interior			<u>4,546,234</u>
Total Expenditures of Federal Awards			<u><u>\$ 12,367,063</u></u>

N/A – Pass-through identifying number not available.

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. The District received federal awards both directly and indirectly through pass-through entities.

Note B – Significant Accounting Policies

Governmental fund types account for the District's federal grant activity. The District's summary of significant accounting policies is presented in Note 1 in the District's basic financial statements.

Federal reimbursements for the Impact Aid and Title IX Indian Education programs are not based upon specific expenditures. Therefore, the amounts reported represent cash received rather than federal expenditures for Impact Aid and Title IX Indian Education.

The District has not elected to use the 10% de minimis cost rate.

Note C – Food Donation

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2016, the District had no food commodities in inventory.

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	Yes
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted	No

Federal Awards

Internal control over major programs:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditors' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516	Yes

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA number</u>
Child Nutrition Cluster	10.553, 10.555, 10.559
IDEA B/Preschool Grant Cluster	84.027
Indian School Equalization Program	15.042
Dollar threshold used to distinguish between Type A and Type B programs	\$ 750,000
Auditee qualified as low-risk auditee	No

Section II – Financial Statement Findings

**2016-A Recording of Transactions
Material Weakness**

Criteria: A good system of internal accounting control contemplates proper reconcilements of all general ledger accounts and adjustments of those accounts to the reconciled balances.

Condition: We identified misstatements in the District's financial statements causing us to propose material audit adjustments.

Cause: The District has not trained staff in the recording of certain transactions.

Effect: Inadequate internal controls over recording of transactions affect the District's ability to detect misstatements that could be material in relation to the financial statements.

Recommendation: While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District.

Views of Responsible Officials: Management agrees with the finding. Due to the small size of the District, it is not cost effective for the District to properly address this deficiency.

**2016-B Preparation of Financial Statements
Material Weakness**

Criteria: Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements.

Condition: The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

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

Effect: Inadequate internal controls over financial reporting of the District result in a reasonable possibility that the District would not be able to prepare the financial statements and accompanying notes to the financial statements.

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

Views of Responsible Officials: Management agrees with the finding. Due to the small size of the District, it is not cost effective for the District to properly address this deficiency.

**2016-C Under-collateralized Deposits
Significant Deficiency**

Criteria: State statutes 21-04-09 and 21-06-07 require that deposits must be fully insured or bonded. If the deposits are not covered by insurance or bonded, they are required to have securities pledged as collateral equal to 110 percent of the deposits.

Condition: At June 30, 2016, the District needed an additional \$324,397 pledged as collateral to ensure they had collateral equal to 110 percent of the deposits at one financial institution.

Cause: At June 30, 2016, the District did not identify that their deposits at one financial institution were going to be in excess of the combined FDIC insurance limits and the collateral that the financial institution pledged for the deposits and failed to obtain additional collateral for the deposits to ensure the deposits were fully collateralized.

Effect: Under-collateralized deposits expose the District to custodial credit risk where in the event of a depository failure, the District's deposits may not be returned to them.

Recommendation: We recommend the District monitor the collateral pledged for deposits and the District's bank balances on an ongoing basis and prior to receiving the pledged collateral reports from the financial institutions each month to ensure collateral pledged is sufficient to fully collateralize any excess deposits to ensure protection of the advance funds.

Views of Responsible Officials: Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

2016-001 **Indian School Equalization Program**
CFDA #15.042

Passed through Turtle Mountain Band of Chippewa Indians

Special Tests and Provisions – Investment and Deposit of Advance Funds
Significant Deficiency in Internal Control over Compliance

Criteria: Organizations receiving advance payments under the Indian Self Determination and Education Assistance Act or the Tribally Controlled Schools Act may invest advance payments before such funds are expended for the purposes of the grant, contract, or funding agreement, so long as such funds are invested only in eligible investments or deposited only in accounts that are insured by an agency or instrumentality of the United States, or are fully collateralized to ensure protection of the advance funds, even in the event of a bank failure.

Condition: The District receives advance payments for the Indian School Equalization Program. At June 30, 2016 the District's deposits at one financial institution were in excess of the FDIC depository insurance limits and the deposits in excess of the FDIC limits were not fully collateralized to ensure protection of the advance funds.

Cause: At June 30, 2016, the District did not identify that their deposits at one financial institution were going to be in excess of the combined FDIC insurance limits and the collateral that the financial institution pledged for the deposits and failed to obtain additional collateral for the deposits to ensure the deposits were fully collateralized.

Effect: Under-collateralized deposits expose the District to custodial credit risk where in the event of a depository failure, the District's deposits may not be returned to them.

Questioned Costs: None

Repeat Finding from Prior Year: No

Recommendation: We recommend the District monitor the collateral pledged for deposits and the District's bank balances on an ongoing basis and prior to receiving the pledged collateral reports from the financial institutions each month to ensure collateral pledged is sufficient to fully collateralize any excess deposits to ensure protection of the advance funds.

Views of Responsible Officials: Management agrees with the finding.