

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities and each major fund of the Beulah Public School District, as of and for the year ended June 30, 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 the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 and each major fund of the Beulah Public School District as of June 30, 2017, and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting as described in Note 2.

## **Basis of Accounting**

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The District prepares its financial statements on the modified cash basis of accounting, which is basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Other Information*

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

The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund – Modified Cash Basis is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund – Modified Cash Basis is fairly stated, in all material respects, in relation to the basic financial statements as a whole on the basis of accounting described in Note 2.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Beulah Public School District's internal control over financial reporting and compliance.



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

December 14, 2017

**BEULAH PUBLIC SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**JUNE 30, 2017**

**ASSETS**

Current assets	
Cash and cash equivalents	\$ 2,484,171
Investments	1,309,335
Total current assets	<u>3,793,506</u>
Non-current assets	
Capital assets (net of accumulated depreciation)	<u>5,072,637</u>
Total assets	<u>8,866,143</u>

**LIABILITIES**

Current liabilities	
Payroll withholdings	<u>12,792</u>
Total liabilities	<u>12,792</u>

**NET POSITION**

Net investment in capital assets	5,072,637
Restricted for:	
Capital projects	948,760
Hot lunch	78,345
Unrestricted	<u>2,753,609</u>
Total net position	<u>\$ 8,853,351</u>

See Notes to the Financial Statements

**BEULAH PUBLIC SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Position
Governmental activities	Expenses	Charges for Services	Operating Grants and Contributions	Total
Instruction:				
Regular instruction	\$ 4,136,776	\$ -	\$ 180,656	\$ (3,956,120)
Special instruction	106,116	-	-	(106,116)
Vocational instruction	362,421	-	11,834	(350,587)
Total instruction	4,605,313	-	192,490	(4,412,823)
Support services:				
Operations and maintenance	875,855	-	-	(875,855)
Student transportation	567,224	-	272,465	(294,759)
General administration services	668,777	-	-	(668,777)
School administration services	371,333	-	-	(371,333)
Food service	445,000	321,799	122,569	(632)
Student activities	395,925	-	-	(395,925)
Business office	130,846	-	-	(130,846)
School library services	113,627	-	-	(113,627)
Other support services	308,112	-	-	(308,112)
Total support services	3,876,699	321,799	395,034	(3,159,866)
 Total governmental activities	8,482,012	321,799	587,524	(7,572,689)
 General revenues:				
Taxes:				
Property taxes levied for general purpose				1,601,941
Property taxes levied for building				474,875
State aid:				
Per pupil aid				4,747,514
Other state aid				32,712
Other revenues:				
County impact aid				1,067,811
Federal impact aid				1,183
Unrealized gain (loss) on investments				(25,724)
Interest and miscellaneous				50,144
Total general revenues				7,954,667
 Change in net position				
Net position - beginning				8,471,373
Net position - ending				\$ 8,853,351

See Notes to the Financial Statements

**BEULAH PUBLIC SCHOOL DISTRICT**  
**BALANCE SHEET – GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**JUNE 30, 2017**

	General Fund	Building Fund	Hot Lunch Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,456,955	\$ 948,760	\$ 78,456	\$ 2,484,171
Investments	1,309,335	-	-	1,309,335
Interfund receivable	111	-	-	111
Total assets	<u>\$ 2,766,401</u>	<u>\$ 948,760</u>	<u>\$ 78,456</u>	<u>\$ 3,793,617</u>
<b>LIABILITIES</b>				
Interfund payable	\$ -	\$ -	\$ 111	\$ 111
Payroll withholdings	12,792	-	-	12,792
Total liabilities	<u>12,792</u>	<u>-</u>	<u>111</u>	<u>12,903</u>
<b>FUND BALANCES</b>				
Restricted for:				
Capital projects	-	948,760	-	948,760
Assigned to:				
Food service	-	-	78,345	78,345
Unassigned	2,753,609	-	-	2,753,609
Total fund balances	<u>2,753,609</u>	<u>948,760</u>	<u>78,345</u>	<u>3,780,714</u>
Total liabilities and fund balances	<u>\$ 2,766,401</u>	<u>\$ 948,760</u>	<u>\$ 78,456</u>	<u>\$ 3,793,617</u>

See Notes to the Financial Statements



**BEULAH PUBLIC SCHOOL DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION**  
**MODIFIED CASH BASIS**  
**JUNE 30, 2017**

Total fund balance, governmental funds		\$ 3,780,714
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Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Cost of capital assets	15,596,615		
Less: Accumulated Depreciation	(10,523,978)		
Net	5,072,637		5,072,637

Net position of governmental activities in the Statement of Net Position		<u>\$ 8,853,351</u>
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See Notes to the Financial Statements

**BEULAH PUBLIC SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE – GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	General Fund	Building Fund	Hot Lunch Fund	Total Governmental Funds
<b>REVENUES</b>				
Property taxes	\$ 1,601,941	\$ 474,875	\$ -	\$ 2,076,816
State sources	5,054,090	-	-	5,054,090
County sources	1,067,811	-	-	1,067,811
Charges for services	-	-	287,421	287,421
Other local sources	43,436	351	34,546	78,333
Federal sources	193,674	-	122,569	316,243
Unrealized gain/(loss) on investments	(25,724)	-	-	(25,724)
Total revenues	<u>7,935,228</u>	<u>475,226</u>	<u>444,536</u>	<u>8,854,990</u>
<b>EXPENDITURES</b>				
Instruction:				
Regular instruction	3,955,101	-	-	3,955,101
Special instruction	106,116	-	-	106,116
Vocational instruction	362,421	-	-	362,421
Total instruction	<u>4,423,638</u>	<u>-</u>	<u>-</u>	<u>4,423,638</u>
Support services:				
Operations and maintenance	261,316	494,241	-	755,557
Student transportation	467,312	-	-	467,312
General administration services	731,278	-	-	731,278
School administration services	371,333	-	-	371,333
Food service	-	-	432,627	432,627
Student activities	383,490	-	-	383,490
Business office	130,846	-	-	130,846
School library services	113,627	-	-	113,627
Other support services	308,112	-	-	308,112
Capital outlay	627,967	-	-	627,967
Total support services	<u>3,395,281</u>	<u>494,241</u>	<u>432,627</u>	<u>4,322,149</u>
Total expenditures	<u>7,818,919</u>	<u>494,241</u>	<u>432,627</u>	<u>8,745,787</u>
Excess (deficiency) of revenues over expenditures	<u>116,309</u>	<u>(19,015)</u>	<u>11,909</u>	<u>109,203</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	870,066	-	870,066
Transfers out	(870,066)	-	-	(870,066)
Total other financing sources and uses	<u>(870,066)</u>	<u>870,066</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(753,757)	851,051	11,909	109,203
Fund balances - beginning	3,507,366	97,709	66,436	3,671,511
Fund balances - ending	<u>\$ 2,753,609</u>	<u>\$ 948,760</u>	<u>\$ 78,345</u>	<u>\$ 3,780,714</u>

See Notes to the Financial Statements

**BEULAH PUBLIC SCHOOL DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE WITH**  
**THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

Net change in fund balances - total governmental funds \$ 109,203

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

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

Capital outlay	627,967	
Depreciation expense	(355,192)	
Excess of depreciation expense over capital outlay	272,775	272,775

Change in net position of governmental activities \$ 381,978

See Notes to the Financial Statements

**BEULAH PUBLIC SCHOOL DISTRICT**  
**STATEMENT OF ASSETS AND LIABILITIES-FIDUCIARY FUNDS**  
**MODIFIED CASH BASIS**  
**JUNE 30, 2017**

**ASSETS**

Cash and cash equivalents	<u>\$ 203,980</u>
Total assets	<u><u>\$ 203,980</u></u>

**LIABILITIES**

Due to students	<u>\$ 203,980</u>
Total liabilities	<u><u>\$ 203,980</u></u>

See Notes to the Financial Statements

**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2017

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

**Principal Activity**

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

**Reporting Entity**

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

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

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of Presentation**

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

Government-wide Financial Statements

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

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

**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017**

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

Fund Financial Statements:

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

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

Governmental Funds

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

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

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

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

Fiduciary Funds

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

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

**Measurement Focus and Basis of Accounting**

Measurement Focus

*Government-wide Financial Statements*

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

**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017**

*Fund Financial Statements*

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

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

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

Basis of Accounting

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

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

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

**Revenue Recognition - Property Taxes**

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

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

**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017**

**Budgets and Budgetary Accounting**

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

**Cash and Cash Equivalents**

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

**Investments**

Investments are recorded at fair value. All investment income, including changes in the fair value, is recognized in the statement of revenues, expenditures, and changes in fund balance.

**Capital Assets**

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

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

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

Buildings and Improvements	50 years
Equipment and Furniture	5-15 years
Vehicles	8 years



**BEULAH PUBLIC SCHOOL DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2017

**Early Retirement and Sick Leave**

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

**Net Position**

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

**Net Position Flow Assumption**

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

**Fund Balance Classifications**

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

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

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

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

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

**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017**

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

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

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

**Interfund Activity**

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

**Estimates**

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

**NOTE 3 CONCENTRATION OF CREDIT RISK**

**Custodial Credit Risk**

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

The District maintains cash on deposit at various financial institutions. The amount on deposit was insured by the FDIC up to \$250,000 at each institution. At June 30, 2017, the District had approximately \$2,708,116 in excess of the FDIC limits on deposit. The pledged securities in the District's name covered all but \$20,714 of the total deposits in excess of the FDIC limits.

**BEULAH PUBLIC SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017**

**NOTE 4 INVESTMENTS**

North Dakota state statute authorizes school districts to invest their surplus funds in: a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress, b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above, c) Certificates of deposit fully insured by the Federal Deposit Insurance Corporation d) Obligations of the state e) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in two hundred seventy days or less.

**Interest Rate Risk**

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

At June 30, 2017, the District's investments were as follows:

<u>Investment Type</u>	<u>Total Fair Value</u>	<u>Less Than 1 Year</u>	<u>1-6 Years</u>	<u>6-10 Years</u>
Government bonds	<u>\$ 1,301,549</u>	<u>\$ -</u>	<u>\$ 868,352</u>	<u>\$ 433,197</u>
Total debt investments	<u>1,301,549</u>	<u>\$ -</u>	<u>\$ 868,352</u>	<u>\$ 433,197</u>
Investments not subject to categorization:				
<u>Money market</u>	<u>7,786</u>			
Total investments	<u><u>\$ 1,309,335</u></u>			

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**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017**

**Credit Risk**

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. The District does not have an investment policy that specifically addresses credit risk. The following table represents the District's ratings as of June 30, 2017.

S&P Credit Rating	Total Fair Value	Government Bonds
AA+	\$ 1,056,251	\$ 1,056,251
NR	245,298	245,298
Total credit risk - debt securities	1,301,549	\$ 1,301,549
Investments not subject to categorization:		
Money market	7,786	
Total investments	\$ 1,309,335	

**NOTE 5 FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

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**JUNE 30, 2017**

The following table below presents the balances of assets measured at fair value on a recurring basis at June 30, 2017.

	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<b>ASSETS</b>				
Government bonds	\$ 1,301,549	\$ -	\$ 1,301,549	\$ -
Money market	7,786	7,786	-	-
Total	<u>\$ 1,309,335</u>	<u>\$ 7,786</u>	<u>\$ 1,301,549</u>	<u>\$ -</u>

**NOTE 6 CAPITAL ASSETS**

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

	Balance 7/1/16	Additions	Deductions	Balance 6/30/17
Capital assets not being depreciated:				
Construction in progress	\$ 17,755	\$ 9,840	\$ 17,755	\$ 9,840
Capital assets being depreciated:				
Buildings and improvements	13,360,392	436,506	-	13,796,898
Equipment and furniture	447,713	148,781	-	596,494
Vehicles	1,191,478	50,595	48,690	1,193,383
Total capital assets being depreciated	<u>14,999,583</u>	<u>635,882</u>	<u>48,690</u>	<u>15,586,775</u>
Less accumulated depreciation:				
Buildings and improvements	9,130,903	209,913	-	9,340,816
Equipment and furniture	367,049	38,773	-	405,822
Vehicles	719,524	106,506	48,690	777,340
Total accumulated depreciation	<u>10,217,476</u>	<u>355,192</u>	<u>48,690</u>	<u>10,523,978</u>
Net capital assets for governmental activities	<u>\$ 4,799,862</u>	<u>\$ 290,530</u>	<u>\$ 17,755</u>	<u>\$ 5,072,637</u>

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

Function:	
Regular Instruction	\$ 186,515
Student Transportation	106,506
Operations and Maintenance	37,303
Food Service	12,434
Student Activities	12,434
	<u>\$ 355,192</u>

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**JUNE 30, 2017**

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

The District participates in an early retirement plan where an employee may chose early retirement if they have been a full-time employee who has completed a total of twenty years of service to the District. The plan provides a positive method for dealing with declining enrollments and the resulting need to reduce staff. If a teacher retires the first year of eligibility they will get 80 percent of the lane placement on the salary schedule and will get 60 percent if they retire the five years after the initial year. The amount of early retirement obligations the District owes at June 30, 2017 is \$32,774. The District also pays sick leave out at a maximum amount of 120 days at \$50 per day to employees who have taught in the District for twenty or more years, with at least ten years consecutively. The amount of sick leave the District owes at June 30, 2017 is \$4,438. The District will be paying these obligations during the next fiscal year.

**NOTE 8 PENSION PLAN**

**North Dakota Teachers' Fund for Retirement**

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

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

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

***Pension Benefits***

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

***Tier 1 Grandfathered***

A Tier 1 grandfathered member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 85. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 85. In either case, benefits

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may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

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

*Tier 1 Non-grandfathered*

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

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

*Tier 2*

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

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

***Death and Disability Benefits***

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

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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, if Beulah Public School District were to report on the full accrual basis, a liability of \$7,717,460 for its proportionate share of the net pension liability would have been reported. The net pension liability was measured as of July 1, 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 July 1, 2016, the Employer's proportion was 0.526768 percent. There were no deferred inflows or outflows of resources reported on the District's financial statements as they are reporting on the modified cash basis.

**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

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,



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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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equities	58%	7.30%
Global Fixed Income	23%	0.88%
Global Real Assets	18%	5.32%
Cash Equivalents	1%	0%

**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

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investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

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

**North Dakota Public Employees' Retirement System**

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

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

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

***Death and Disability Benefits***

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

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

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

At June 30, 2017, if Beulah Public School District were to report on the full accrual basis, a liability of \$895,012 for its proportionate share of the net pension liability would have been reported. 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 0.091834 percent. There were no deferred inflows or outflows of resources reported on the District's financial statements as they are reporting on the modified cash basis.

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**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
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**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:

<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.** 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,

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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.

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

**NOTE 9 INTERFUND RECEIVABLES/PAYABLES**

Interfund receivables/payables at June 30, 2017 are as follows:

Fund	Due From Other Funds	Due To Other Funds
General Fund	\$ 111	\$ -
Hot Lunch Fund	-	111
	\$ 111	\$ 111

The \$111 internal balance relates to amounts paid for out of the general fund that have not yet been reimbursed by the hot lunch fund. These amounts will be repaid in the current period.

**NOTE 10 TRANSFERS**

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended June 30, 2017.

Fund	Transfer In	Transfer Out
General Fund	\$ -	\$ 870,066
Building Fund	870,066	-
	\$ 870,066	\$ 870,066

The purpose of the transfer was to move funds from the General Fund to the Building Fund to assist the fund with various capital expenses incurred and to pay off prior year debt incurred.

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**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
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**NOTE 11 RISK MANAGEMENT**

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

In 1986, State agencies and political subdivision of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the State and over 2,000 political subdivisions. The District pays an annual premium to NDRIF for its general liability and automobile insurance coverage. The coverage by NDRIF is limited to losses of two million dollars per occurrence.

Beulah Public School District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of two million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the District with blanket fidelity bond coverage in the amount of two million dollars for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

**NOTE 12 NONMONETARY TRANSACTIONS**

The District receives food commodities from the federal government to subsidize its hot lunch program. The market value of commodities received for the year ended June 30, 2017 was \$31,551.

**NOTE 13 ECONOMIC DEPENDENCY**

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

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**JUNE 30, 2017**

**NOTE 14 CONTINGENCIES**

The District received financial assistance from federal and state agencies in the form of grants. The expenditures of funds received under these programs generally requires compliance with items and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund. The District's management believes it has complied with all applicable grant provisions. In the opinion of management, any possible disallowed claims would not have a material adverse effect on the overall financial position of the District as of June 30, 2017.

**NOTE 15 ISSUED BUT NON-EFFECTIVE PRONOUNCEMENTS**

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

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

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

**BEULAH PUBLIC SCHOOL DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2017

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

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

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. This Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This Statement is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

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

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

**NOTE 16 SUBSEQUENT EVENTS**

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through December 14, 2017, which is the date these financial statements were available to be issued



**BEULAH PUBLIC SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND**  
**MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Budget Amounts, Original and Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>			
Property taxes	\$ 1,644,562	\$ 1,601,941	\$ (42,621)
State sources	5,167,047	5,054,090	(112,957)
County sources	955,222	1,067,811	112,589
Other local sources	35,200	43,436	8,236
Federal sources	227,597	193,674	(33,923)
Unrealized gain/(loss) on investments	-	(25,724)	(25,724)
Total revenues	<u>8,029,628</u>	<u>7,935,228</u>	<u>(94,400)</u>
<b>EXPENDITURES</b>			
Instruction:			
Regular instruction	3,792,465	3,955,101	(162,636)
Special instruction	150,000	106,116	43,884
Vocational instruction	370,055	362,421	7,634
Total instruction	<u>4,312,520</u>	<u>4,423,638</u>	<u>(111,118)</u>
Support services:			
Operations and maintenance	750,362	261,316	489,046
Student transportation	577,498	467,312	110,186
General administration services	757,463	731,278	26,185
School administration services	380,028	371,333	8,695
Student activities	451,806	383,490	68,316
Business office	134,805	130,846	3,959
School library services	108,227	113,627	(5,400)
Other support services	273,025	308,112	(35,087)
Capital outlay	141,000	627,967	(486,967)
Total support services	<u>3,574,214</u>	<u>3,395,281</u>	<u>178,933</u>
Total expenditures	<u>7,886,734</u>	<u>7,818,919</u>	<u>67,815</u>
Excess (deficiency) of revenues over expenditures	<u>142,894</u>	<u>116,309</u>	<u>(26,585)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	-	(870,066)	(870,066)
Total other financing sources and uses	<u>-</u>	<u>(870,066)</u>	<u>(870,066)</u>
Net change in fund balances	142,894	(753,757)	(896,651)
Fund balances - beginning	3,507,366	3,507,366	-
Fund balances - ending	<u>\$ 3,650,260</u>	<u>\$ 2,753,609</u>	<u>\$ (896,651)</u>



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

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

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities and each major fund of the Beulah Public School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 14, 2017.

**Internal Control over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as 2017-002, 2017-003, 2017-004, and 2017-005 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2017-001 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as items 2017-004 and 2017-005.

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

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

### **Purpose of This Report**

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



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

December 14, 2017

**BEULAH PUBLIC SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

2017-001

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Action

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

**BEULAH PUBLIC SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2017**

2017-002 – Material Weakness

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

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

Views of Responsible Officials and Planned Corrective Action

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

**BEULAH PUBLIC SCHOOL DISTRICT**  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2017

2017-003 – Material Weakness

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Action

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

**BEULAH PUBLIC SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2017**

2017-004 – Material Weakness

Criteria

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

Condition

The District was under collateralized at one of its financial institutions as of June 30, 2017.

Cause

The District was under collateralized by \$20,714 at June 30, 2017 due to deposits in one of its financial institutions that exceeded the FDIC coverage and collateral pledged.

Effect

The District did not have all their deposits adequately covered by FDIC coverage and / or pledged securities as of June 30, 2017 and is not in compliance with North Dakota Century Code 21-04-09.

Recommendation

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

Views of Responsible Officials and Planned Corrective Action

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

**BEULAH PUBLIC SCHOOL DISTRICT**  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2017

2017-005 – Material Weakness

Criteria

The District was late on payroll tax submissions for three separate months during the fiscal year. The result of the tardy payroll tax submissions was penalties to the District of totaling \$2,420.

Condition

During the audit, it was noted that the District was late in payroll tax submissions at various times throughout the year.

Cause

The District was late on payroll tax submissions at certain times during the year.

Effect

The District was subject to penalties due to the late payroll tax submissions.

Recommendation

We recommend the District implement policies and procedures to ensure that payroll tax submissions are remitted in a timely fashion.

Views of Responsible Officials and Planned Corrective Action

The District will better monitor to ensure all payroll tax submissions are submitted on a timely basis.