

**BILLINGS COUNTY  
SCHOOL DISTRICT NO. 1  
MEDORA, NORTH DAKOTA**

**FINANCIAL REPORT FOR  
THE YEAR ENDED  
JUNE 30, 2016**

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

**BILLINGS COUNTY SCHOOL DISTRICT NO. 1  
MEDORA, NORTH DAKOTA  
JUNE 30, 2016**

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**Billings County School District #1  
Medora, North Dakota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The Management's Discussion and Analysis (MD&A) of Billings County School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2016. The intent of the MD&A is to look at the District's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

**FINANCIAL HIGHLIGHTS**

- **See charts on page iv for comparisons of net position, revenues and expenditures from 2015 to 2016.**
- The District's revenue from all sources was \$4,069,495—up \$1,728,751 from FY2015.
- The District's expenditures for all funds were \$2,448,931-- \$159,405 less than FY2015.
- Total revenues exceeded expenditures by \$1,620,564.
- After taking into consideration changes in investment values, the **ending balance for all funds** was **\$10,168,907**, an increase of \$1,373,244 from the previous year. Total **net position** of the district as of 6-30-2016 was **\$11,057,184**, an increase of \$1,620,564. (See explanation below.)

**USING THIS ANNUAL REPORT**

Management's Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the basic financial statements. These statements are organized so the reader can understand Billings County School District as a financial whole.

**STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES**

Net position include the value of capital assets, such as buildings, equipment, etc. after depreciation, in addition to cash and investments. It also takes into consideration any liabilities of the District, which, in our case, includes \$51,224 in potential compensated absences and \$1,502,961 in future retirement liabilities (not a direct future liability paid out of district funds, but new requirement to show it on the financials of each organization as future retirement payout for employees). The difference between total assets and total liabilities is reported as net position. Total net position of the district as of June 30, 2016, was \$11,057,184-- \$1,620,564 more than June 30, 2015. This was largely due to revenues exceeding expenditures. This was offset by depreciation of capital assets, and the requirement that future retirement benefits payouts be listed as a liability on the District's financials. The state changed the allocation formula on oil and gas production tax revenues to school districts thus reinstating oil and gas revenues for schools negatively impacted from the 2013 legislative session law change. The Billings County School

\$1,149,791 more in oil and gas revenues in FY16 than in FY15 and was also eligible to receive \$632,437 in state foundation aid due to the decrease in oil and gas revenues received in FY15. Property taxes received in FY2016 were \$869,509, an increase of \$94,561 over the previous year.

The Statement of Activities reports expenses and revenues and changes in net position by activity or program, including, but not limited to, instruction, administration, support services, operation and maintenance, transportation, food services, special education, and extracurricular activities.

## **BALANCE SHEET-GOVERNMENT FUNDS**

This statement reflects assets, liabilities and fund balances for the District's major funds. The District uses separate funds to account for and manage money dedicated for particular purposes, such as general expenses, student activity funds, and capital projects (building) funds.

## **FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

Assets exceeded liabilities by \$11,057,184 as of June 30, 2016. Assets included cash and investments of \$10,168,907, capital assets of \$2,167,434 (after a depreciation of \$117,703 from their value as of June 30, 2015), land value of \$12,000 and deferred property tax revenue of \$39,385, for total assets of \$12,387,726.

Liabilities consisted of potential compensated absences of \$52,224 and future retirement benefits payouts in the amount of \$1,502,961. Compensated absences are sick leave, vacation time, etc. which are carried over at the end of the fiscal year, and which must be paid to employees at termination of employment. Future retirement benefits payouts are not a direct payout of the District, but are required to be noted on the financials each year. **Total Assets plus Deferred Outflows of Resources** (retirement pension plan adjustment) **total \$12,783,183 less Liabilities plus Deferred Inflows of Resources** (retirement pension plan adjustment) **total \$1,725,999 = Net Position of \$11,057,184.**

## **THE DISTRICT'S FUTURE**

The 2013 legislative session drastically cut oil and gas revenues requiring the District to expend General Fund reserves to compensate for the nearly \$1 million reduction. The Billings County School District became eligible for state foundation aid beginning in FY2015, receiving a total of \$690,467 in FY2015 and \$632,437 in FY2016. Prior to that, the District was not eligible for foundation aid due to having an ending balance exceeding the allowable and the deduction of oil and gas revenues received. In the 2015 legislative session, oil and gas production tax revenues for schools in oil country were once again increased back to pre-2013 levels. Reserves were partially replenished in FY2016. Seventy-five percent of the oil and gas revenues received in FY2016 will be deducted from FY2017 state foundation aid, thus again excluding the BCSD from receiving state foundation aid in FY2017. Taxes were raised for FY2017 to help offset the loss in revenue anticipated in FY2017 and FY2018. It is assumed that with the deflated oil economy, oil and gas revenues will again be drastically cut requiring the BCSD to be less reliant on this revenue source. The board plans to do gradual annual increases to the general fund tax levy over the next several years until the annual budget is balanced without relying solely on oil and gas production tax revenues or general fund reserves. So it is anticipated that with the revenue generated from the tax increases and the replenishment of general fund reserves, the budget will be adequately addressed

in future years and be less reliant on the volatility of oil and gas revenues.

The County did not contribute land utilization funds to the District in FY2014 but contributed \$700,000 for FY2015. They contributed \$350,000 for FY2016 and committed another \$350,00 for FY2017. Since these land use funds are received in the spring, near the end of our fiscal year, they are generally not expended until the following fiscal year.

The District's enrollment has remained steady over the past three years with enrollment numbers between 35 and 45 students at each school. The District has experienced transient students, ESL students, etc. which require some modifications. Preschool is generally held part-time at each school depending on enrollment numbers. Both DeMores and Prairie have preschool classes for the 2016-17 school year.

The District continues to participate in a sports co-op with Belfield & South Heart schools. Students from both schools attend lyceums and other programs to help improve socialization. Students also compete in County, Regional, and State educational competitions. The District is maintaining its membership in the Roughrider Educational Services Partnership, which enables us to share educational resources and professional development opportunities with other schools in the region, which might not otherwise be financially feasible. The use of iPads is being implemented in the classrooms. One-to-one iPads are now available for all students K-8 in the 2016-17 school year.

The Prairie School roof was reshingled and a new fire alarm system installed at DeMores in 2015. State oil and gas impact funds in the amount of \$99,369 were obtained to help cover the cost of these improvements. The DeMores School and Resource Center roofs were reshingled and a new fire alarm system installed at Prairie in 2016. Significant water damage occurred at DeMores School the summer of 2016 while the roof was being shingled. Cost estimates have been obtained for all the damage and submitted to the contractor's insurance. It is uncertain at this time the amount of compensation the District can expect to receive for the sustained damage. Building fund reserves will be utilized for any costs not compensated for by the contractor's insurance. State oil and gas impact funds in the amount of \$99,767 will be obtained for the FY2016 roof and fire alarm improvements. A storage garage is being built in FY2017 utilizing building fund reserves.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide District patrons, taxpayers, and creditors with a general overview of the District's finances, and to show the District's accountability for the money it receives. Anyone who has questions about the information contained in this report, or who is interested in receiving additional information, is encouraged to contact the office of the Business Manager, Billings County School Dist., Box 307, Medora, ND 58645; phone 701-623-4363, fax 701-623-4941, or e-mail [tammy.simnioniw@k12.nd.us](mailto:tammy.simnioniw@k12.nd.us).

## BILLINGS COUNTY SCHOOL DISTRICT NO. 1

### STATEMENT OF NET POSITION

	2015	2016	CHANGE
<b>ASSETS:</b>			
CASH AND CASH EQUIVALENTS	\$ 8,795,663	\$ 10,168,907	\$ 1,373,244
RECEIVABLES	\$ 22,393	\$ 39,385	\$ 16,992
CURRENT ASSETS	<u>\$ 8,818,056</u>	<u>\$ 10,208,292</u>	<u>\$ 1,390,236</u>
CAPITAL ASSETS (NET)	\$ 2,270,651	\$ 2,179,434	\$ (91,217)
TOTAL ASSETS	<u>\$ 11,088,707</u>	<u>\$ 12,387,726</u>	<u>\$ 1,299,019</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>\$ -</u>	<u>\$ 395,457</u>	<u>\$ 395,457</u>
CURRENT LIABILITIES	\$ 5,000	\$ 5,000	\$ -
LONG-TERM LIABILITIES	\$ 1,647,087	\$ 1,549,185	\$ (97,902)
TOTAL LIABILITIES	<u>\$ 1,652,087</u>	<u>\$ 1,554,185</u>	<u>\$ (97,902)</u>
DEFERRED INFLOWS OF RESOURCES	<u>\$ -</u>	<u>\$ 171,814</u>	<u>\$ 171,814</u>
NET INVESTMENT IN CAPITAL ASSETS	\$ 2,270,651	\$ 2,179,434	\$ (91,217)
UNRESTRICTED	\$ (423,515)	\$ 1,155,523	\$ 1,579,038
RESTRICTED	\$ 7,589,484	\$ 7,722,227	\$ 132,743
NET POSITION	<u>\$ 9,436,620</u>	<u>\$ 11,057,184</u>	<u>\$ 1,620,564</u>

### STATEMENT OF REVENUES

CHARGE FOR SERVICES	\$ 74,339	\$ 83,758	\$ 9,419
GRANTS	\$ 35,744	\$ 36,086	\$ 342
PROPERTY TAXES	\$ 774,948	\$ 869,509	\$ 94,561
FEDERAL AND STATE SHARED REVENUES	\$ 890,467	\$ 1,331,806	\$ 441,339
INVESTMENT EARNINGS	\$ 203,670	\$ 237,323	\$ 33,653
OIL AND GAS RELATED REVENUES	\$ 356,850	\$ 1,506,641	\$ 1,149,791
MISCELLANEOUS	\$ 4,726	\$ 4,372	\$ (354)
TOTAL	<u>\$ 2,340,744</u>	<u>\$ 4,069,495</u>	<u>\$ 1,728,751</u>

### STATEMENT OF EXPENDITURES

INSTRUCTIONAL SERVICES	\$ 863,824	\$ 709,677	\$ (154,147)
SUPPORTING SERVICES:			
STUDENTS	\$ 15,465	\$ 15,090	\$ (375)
INSTRUCTIONAL STAFF	\$ 184,035	\$ 198,929	\$ 14,894
DISTRICT ADMINISTRATION	\$ 61,234	\$ 47,604	\$ (13,630)
SCHOOL ADMINISTRATION	\$ 118,249	\$ 172,913	\$ 54,664
BUSINESS	\$ 176,523	\$ 184,073	\$ 7,550
OPERATION AND MAINTENANCE	\$ 432,086	\$ 428,012	\$ (4,074)
TRANSPORTATION	\$ 295,751	\$ 271,662	\$ (24,089)
SPECIAL EDUCATION	\$ 170,443	\$ 136,244	\$ (34,199)
COMMUNITY SERVICE PROGRAMS	\$ 39,032	\$ 24,468	\$ (14,564)
EXTRACURRICULAR PROGRAMS	\$ 12,260	\$ 14,161	\$ 1,901
SCHOOL LUNCH SERVICES	\$ 123,056	\$ 128,395	\$ 5,339
UNALLOCATED DEPRECIATION	\$ 116,378	\$ 117,703	\$ 1,325
TOTAL	<u>\$ 2,608,336</u>	<u>\$ 2,448,931</u>	<u>\$ (159,405)</u>

**BILLINGS COUNTY SCHOOL DISTRICT NO. 1  
SCHOOL OFFICERS**

**2015 - 2016**

Lynn Arthaud - President

Joey Kessel

Stacey Kessel

Mike Klatt

Julie Reis

Tammy Simnioniw, Business Manager

Shae Peplinski, Principal

Danielle Boswell, Assistant Principal



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

Licensed in North Dakota and Montana

### Independent Auditor's Report

Board of Trustees  
Billings County School District No. 1  
Medora, North Dakota 58645

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Billings County School District No. 1, Medora, North Dakota, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the



entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Billings County School District No. 1, Medora, North Dakota, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i - iv and 32 - 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Billings County School District No. 1, Medora, North Dakota's basic financial statements. The other supplemental information on pages 37 – 38 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

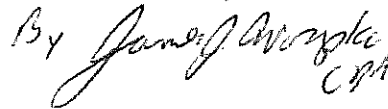
The other supplemental information on pages 37 - 38 is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to

the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information on pages 37 - 38 is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2016, on our consideration of Billings County School District No. 1, Medora, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Billings County School District No. 1, Medora, North Dakota's internal control over financial reporting and compliance.

James J. Wosepka, PC

By  CMA

November 1, 2016  
Beach, North Dakota

**Billings County School District No. 1**  
**Statement of Net Position**  
**June 30, 2016**

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 10,168,907
Taxes/assessments receivable	39,385
Capital assets not being depreciated	
Land	12,000
Capital assets being depreciated (net of accumulated depreciation)	2,167,434
<b>Total Assets</b>	<b>12,387,726</b>
<b>Deferred Outflows of Resources</b>	<b>395,457</b>
<b>Liabilities</b>	
Noncurrent liabilities:	
Due within one year	5,000
Due in more than one year	1,549,185
<b>Total Liabilities</b>	<b>1,554,185</b>
<b>Deferred Inflows of Resources</b>	<b>171,814</b>
<b>Net Position</b>	
Net investment in capital assets	2,179,434
Unrestricted net position	1,155,523
Restricted net position	7,722,227
<b>Total Net Position</b>	<b>\$ 11,057,184</b>

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

**Billings County School District No. 1**  
**Statement of Activities**  
**Fiscal Year Ended June 30, 2016**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services, Fines, Forfeitures, etc.	Operating Grants and Contributions	
<b>Primary government:</b>				
Instructional services	\$ 709,677	\$ 25,590	\$ 25,795	\$ (658,292)
Supporting services:				
Students	15,090	-	-	(15,090)
Instructional staff	198,929	-	-	(198,929)
District administration	47,604	-	-	(47,604)
School administration	172,913	-	-	(172,913)
Business services	184,073	-	-	(184,073)
Operation & maintenance of facility	428,012	-	-	(428,012)
Transportation	271,662	-	-	(271,662)
Special education	136,244	-	-	(136,244)
Community service programs	24,468	22,050	-	(2,418)
Extracurricular programs	14,161	-	-	(14,161)
School lunch services	128,395	36,118	10,291	(81,986)
Unallocated depreciation	117,703	-	-	(117,703)
<b>Total governmental activities</b>	<b>\$ 2,448,931</b>	<b>\$ 83,758</b>	<b>\$ 36,086</b>	<b>(2,329,087)</b>
General revenues:				
Property taxes				869,509
Unrestricted Federal/State revenues				1,331,806
Oil and gas related revenue				1,506,641
Unrestricted investment earnings				237,323
Miscellaneous				4,372
<b>Total general revenues and transfers</b>				<b>3,949,651</b>
Change in net position				1,620,564
Total net position - July 1, 2015				9,436,620
Total net position - June 30, 2016				<b>\$ 11,057,184</b>

**Billings County School District No. 1**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2016**

Description	General	Major Fund Building	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,446,680	\$ 7,722,227	\$ 10,168,907
Tax/assessment receivable	39,385	-	39,385
<b>Total Assets</b>	<b>2,486,065</b>	<b>7,722,227</b>	<b>10,208,292</b>
<b>LIABILITIES</b>			
Accounts payable	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES-</b>			
Unavailable revenue - property taxes	39,385	-	39,385
<b>FUND BALANCES</b>			
Assigned	-	7,722,227	7,722,227
Unassigned	2,446,680	-	2,446,680
<b>Total fund balances</b>	<b>2,446,680</b>	<b>7,722,227</b>	<b>10,168,907</b>
<b>Total liabilities, deferred inflows or resources and fund balances</b>	<b>\$ 2,486,065</b>	<b>\$ 7,722,227</b>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>2,179,434</u>
Certain property tax collections are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources.	<u>39,385</u>
Long-term liabilities, including pensions payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,330,542)</u>
<b>Total net position - governmental activities</b>	<u><u>\$ 11,057,184</u></u>

**Billings County School District No. 1**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2016**

Description	Major Fund		Total Governmental Funds
	General	Building	
<b>REVENUES</b>			
Property taxes	\$ 852,517	\$ -	852,517
Earnings on investments	44,426	192,897	237,323
School lunch sales	36,118	-	36,118
Other local sources	1,558,653	-	1,558,653
State aid	637,893	99,369	737,262
Federal aid	630,630	-	630,630
<b>Total Revenues</b>	<b>3,760,237</b>	<b>292,266</b>	<b>4,052,503</b>
<b>EXPENDITURES</b>			
Current:			
Instructional services	1,031,222	-	1,031,222
Supporting services:			
Students	15,090	-	15,090
Instructional staff	198,929	-	198,929
District administration	47,604	-	47,604
School administration	172,913	-	172,913
Business services	184,073	-	184,073
Operation & maintenance of facilities	294,975	159,523	454,498
Transportation	271,662	-	271,662
Special education	136,244	-	136,244
Community service programs	24,468	-	24,468
Extracurricular programs	14,161	-	14,161
Food services	128,395	-	128,395
<b>Total Expenditures</b>	<b>2,519,736</b>	<b>159,523</b>	<b>2,679,259</b>
<b>Excess of revenues (under) expenditures</b>	<b>1,240,501</b>	<b>132,743</b>	<b>1,373,244</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	-	-
Transfers out	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>1,240,501</b>	<b>132,743</b>	<b>1,373,244</b>
<b>Fund balances - July 1, 2015</b>	<b>1,206,179</b>	<b>7,589,484</b>	<b>8,795,663</b>
<b>Fund balances - June 30, 2016</b>	<b>\$ 2,446,680</b>	<b>\$ 7,722,227</b>	<b>\$ 10,168,907</b>

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

**Billings County School District No. 1  
 Reconciliation of the Statement of Revenues, Expenditures,  
 and Changes in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 Fiscal Year Ended June 30, 2016**

<b>Net change in fund balances - total governmental funds (page 8)</b>	<b><u>\$ 1,373,244</u></b>
Amounts reported for governmental activities in the statement of activities (page 6) are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets purchased	<u>26,486</u>
Depreciation expense	<u>(117,703)</u>
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Unavailable property taxes	<u>16,992</u>
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	
Accrued compensated absences	<u>16,487</u>
Pension expense GASB 68	<u>305,058</u>
<b>Change in Net Position in Governmental Activities</b>	<b><u><u>\$ 1,620,564</u></u></b>

**Billings County School District No. 1**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2016**

Description	Trust Funds Private Purpose Trust Funds
<b>ASSETS</b>	
Cash and cash equivalents	\$ 7,180
<b>Total Assets</b>	<b>7,180</b>
<b>LIABILITIES</b>	
Due to other governments	-
<b>Total Liabilities</b>	<b>-</b>
<b>NET POSITION</b>	
Held for student activities	<b>\$ 7,180</b>

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



**Billings County School District No. 1**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**Fiscal Year Ended June 30, 2016**

Description	Trust Funds Private Purpose Trust Funds
<b>ADDITIONS:</b>	
Student activities revenue	\$ 11,501
Investment earnings	-
<b>Total Additions</b>	<b>11,501</b>
<b>DEDUCTIONS:</b>	
Student activities	14,916
<b>Total Deductions</b>	<b>14,916</b>
Change in net position	(3,415)
Total net position - July 1, 2015	10,595
Total net position - June 30, 2016	<b>\$ 7,180</b>

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

**BILLINGS COUNTY SCHOOL DISTRICT NO. 1  
MEDORA, NORTH DAKOTA**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**1. Summary of Significant Accounting Policies**

The financial statements of Billings County School District No. 1 (District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting financial reporting principles. The District's significant accounting policies are described below.

**Reporting Entity**

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

**Government-wide and Fund Financial Statements**

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

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

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

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

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

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

The government-wide and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

The District reports the following major governmental funds:

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

Building Fund - This fund is used to accumulate monies for building or construction projects.

The District reported the following fund types:

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

**Cash and Investments**

Cash includes amounts in demand deposits and money market accounts. Investments consist of securities issued by the federal government or one of its agencies. Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or secured with pledges of securities equal to 110% of the uninsured balance.

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

Buildings and improvements	15 - 50 years
Equipment	5 - 30 years

**Taxes**

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

**Inventories**

Inventories of materials and supplies are expensed at the time of purchase. Inventories of materials and supplies on hand are maintained, but not considered material for audit purposes.

**Vacation and Sick Leave**

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

## 1. Summary of Significant Accounting Policies – cont.

### Net Position

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

### Interfund Transactions

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

### Fund Balance Reporting

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

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

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

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints by formal action of the government from its highest level of decision making authority.

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

- **Assigned:** fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- **Unassigned:** fund balances of the General Fund that are not constrained for any particular purpose.

	<u>Major Funds</u>		Total
	<u>General</u>	<u>Building</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
Nonspendable:			
Inventories	\$ -	\$ -	\$ -
Assigned:			
School Operations	-	-	-
Capital Projects	-	7,722,227	7,722,227
Unassigned	<u>2,446,680</u>	-	<u>2,446,680</u>
Total Fund Balance	<u>\$ 2,446,680</u>	<u>\$ 7,722,227</u>	<u>\$ 10,168,907</u>

Assigned funds are at the determination of the Board.

**Deferred Outflows/Inflows of Resources**

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

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

**New GASB Pronouncements**

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The Statement provides guidance for determining fair value measurement for reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statement periods beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets

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

accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for transaction or other event is not specified within a source of authoritative GAAP. This Statement is effective for reporting periods beginning after June 15, 2015. Earlier application is permitted.

2. **Cash and Investments**

State statues 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 which the underlying securities for the agreement to repurchase are of the type listed above, c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or the state, d) Certificates of deposit, savings deposits, or other deposits fully insured or guaranteed by the Federal Deposit Insurance Corporation and placed for the benefit of the public depositor by a public depository through an appropriate deposit placement service as determined by the commissioner of financial institutions, e) State and local securities, and f) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in two hundred seventy days or less.

At June 30, 2016, the carrying amount of the District's deposits (cash and money markets) was \$1,199,522 and the bank balance was \$1,261,174. The entire bank balance throughout the year was covered by Federal Depository Insurance or by

2. **Cash and Investments – cont.**

collateral held by the pledging financial institution's trust department or agent in the District's name.

The deposits were deemed collateralized under North Dakota law during the year.

**Concentration of Credit Risk**

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

**Custodial Credit Risk**

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

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

**Credit, Interest Rate, and Foreign Currency Risk**

The District has no credit risk or foreign currency risk of debt securities. The District does have interest rate risk. The District buys long term government securities. As interest rates change and the securities need to be sold, the District could lose value or show a loss on the sale of the securities.

Statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies, municipal securities, and repurchase agreements. The carrying value of investments owned at year end was \$8,980,107 in securities issued by the Federal Government or one of its agencies, which are carried at fair value, which is not materially different than cost.

3. **Taxes Receivable**

Taxes receivable consists of delinquent uncollected taxes at December 31. Property tax revenue is recognized in compliance with the National Council on Government Accounting (NCGA) Interpretation 3, "Revenue Recognition-Property Taxes". This interpretation states that property tax revenue is recorded when it becomes available. Available means then due, or past due and receivable within the current period and collected within the current period, or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Since no material taxes are collected within the time period, taxes receivable are recorded as inflow of resources.

Property taxes attach as an enforceable lien on property on January 1. A 5% reduction is allowed if paid by February 15th. Penalty and interest are added March



3. **Taxes Receivable – cont.**  
1<sup>st</sup> unless the first half of the taxes has been paid. Additional penalties are added October 15th if not paid.
4. **Statewide Retirement Plans**  
***North Dakota Teachers' Fund for Retirement***

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

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

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

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

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.

#### 4. Statewide Retirement Plans – cont.

##### *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

4. **Statewide Retirement Plans – cont.**

reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

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

***Death and Disability Benefits***

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

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

***Member and Employer Contributions***

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

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

4. **Statewide Retirement Plans – cont.**  
***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2016, the Employer reported a liability of \$1,343,703 for its proportionate share of the net pension liability. 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 0.102741 percent, which was a decrease of 0.023196 from its proportion measured as of June 30, 2015.

For the year ended June 30, 2016, the Employer recognized pension expense of \$50,737. At June 30, 2016, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,805	\$ -
Changes of assumptions	150,875	-
Net difference between projected and actual earnings on pension plan investments	-	15,152
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	230,405
Employer contributions subsequent to the measurement date	96,652	-
Total	<u>\$ 256,332</u>	<u>\$ 245,557</u>

\$256,332 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

<b>Year ended June 30:</b>	
2017	\$ (22,991)
2018	(22,991)
2019	(22,991)
2020	7,584
2021	(11,559)
Thereafter	(12,930)

#### 4. Statewide Retirement Plans – cont.

**Actuarial assumptions.** 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	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:

4. **Statewide Retirement Plans – cont.**

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Employer's proportionate share of the net pension liability	\$ 1,775,768	\$ 1,343,703	\$ 983,371

**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 (Main System)***

**Summary of Significant Accounting Policies**

**Pensions.** For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public

4. **Statewide Retirement Plans – cont.**

Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**General Information about the Pension Plan**

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

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

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

***Pension Benefits***

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

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

4. **Statewide Retirement Plans – cont.**  
***Death and Disability Benefits***

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

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

***Refunds of Member Account Balance***

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

***Member and Employer Contributions***

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of 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



4. **Statewide Retirement Plans – cont.**

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

At June 30, 2016, the Employer reported a liability of \$322,088 for its proportionate share of the net pension liability. 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 Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2015, the Employer's proportion was 0.047367 percent, which was a decrease of 0.005651 from its proportion measured as of June 30, 2015.

For the year ended June 30, 2016, the Employer recognized pension expense of \$37,471. At June 30, 2016, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 9,344	\$ -
Changes of assumptions	-	(28,696)
Net difference between projected and actual earnings on pension plan investments	37,217	(44,016)
Changes in proportion and differences between employer contributions and proportionate share of contributions	34,733	(1,031)
Employer contributions subsequent to the measurement date	57,831	-
Total	<u>\$ 139,125</u>	<u>\$ (73,743)</u>

\$139,125 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

<b>Year ended June 30:</b>	
2017	\$ (1,953)
2018	(1,953)
2019	(1,953)
2020	12,097
2021	1,308
Thereafter	-

4. **Statewide Retirement Plans – cont.**

**Actuarial assumptions.** 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:

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

4. **Statewide Retirement Plans – cont.**

**Discount rate.** 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 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employer's proportionate share of the net pension liability	\$ 493,905	\$ 322,088	\$ 181,510

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

5. **Risk Management**

Billings County School District No. 1 is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters.

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (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 School District pays an annual premium to NDRIF for its general liability, auto, and inland marine insurance coverage. The coverage by NDRIF 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 buildings and personal property. Replacement cost coverage is provided by estimating replacement costs

5. **Risk Management – cont.**

in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12-month period. The State Bonding Fund currently provides the School District with blanket fidelity bond coverage in the amount of \$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 Worker's Compensation Bureau and purchases commercial insurance for employee health and accident insurance.

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

6. **Compensated Absences & Pensions Payable**

The following is a summary of compensated absences of the District for fiscal year ended June 30, 2016.

Compensated absences payable, which represents vacation and sick leave earned by employees, which is payable upon termination, was as follows:

Compensated absences 6/30/15	\$ 67,711
Change	<u>(16,487)</u>
Compensated absences 6/30/16	<u>\$ 51,224</u>

The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions.

Pensions payable 6/30/15	\$ 1,584,376
Change	<u>(81,415)</u>
Pensions payable 6/30/16	<u>\$ 1,502,961</u>

7. **Pending Litigation**

There was no pending or threatened litigation or unasserted claims or assessments against the District through the date of this audit report for the year ended June 30, 2016.

8. **Commitments**

The School District has contracts for bus services and technology services through the 2016-2017 school year.

The District entered into three contracts to repair the roof at DeMores Elementary in the amount of \$158,499, of which \$21,465 had been paid prior to June 30, 2016. The contracts were all completed and paid by the date of this report.

The District also entered into a contract to upgrade the fire alarm system at the Prairie School in the amount of \$41,900, of which \$0 had been paid prior to June 30, 2016. The contract was completed and paid by the date of this report.

**9. Capital Assets**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land	\$ 12,000	\$ -	\$ -	\$ 12,000
Construction in progress	<u>26,514</u>	<u>-</u>	<u>26,514</u>	<u>-</u>
Total capital assets, not being depreciated	38,514	-	26,514	12,000
Capital assets, being depreciated:				
Buildings and improvements	4,387,370	-	-	4,387,370
Furniture and equipment	<u>402,942</u>	<u>53,000</u>	<u>-</u>	<u>455,942</u>
Total capital assets, being depreciated	4,790,312	53,000	-	4,843,312
Accumulated depreciation for:				
Buildings and improvements	(2,303,243)	(87,747)	-	(2,390,990)
Furniture and equipment	<u>(254,932)</u>	<u>(29,956)</u>	<u>-</u>	<u>(284,888)</u>
Total accumulated depreciation	<u>(2,558,175)</u>	<u>(117,703)</u>	<u>-</u>	<u>(2,675,878)</u>
Total capital assets, being depreciated, net	<u>2,232,137</u>			<u>2,167,434</u>
Governmental activities capital assets, net	<u>\$ 2,270,651</u>			<u>\$ 2,179,434</u>

Depreciation expense was charged to functions of the District as follows:

<b>Governmental activities:</b>	
Unallocated	\$ <u>117,703</u>
Total depreciation expense, governmental activities	\$ <u>117,703</u>

**10. Estimates**

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

**11. Subsequent Events**

The District has evaluated subsequent events through the date of this report.

**REQUIRED  
SUPPLEMENTARY INFORMATION**

**Billings County School District No. 1**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual**  
**General Fund**  
Year Ended June 30, 2016

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>Revenues:</b>				
Property taxes	\$ 834,248	\$ 834,248	\$ 852,517	\$ 18,269
Earnings on investments	10,000	10,000	44,426	34,426
School lunch sales	31,000	31,000	36,118	5,118
Other local sources	1,801,500	1,801,500	1,558,653	(242,847)
State aid	998,562	998,562	637,893	(360,669)
Federal aid	893,294	893,294	630,630	(262,664)
Total revenues	<u>4,568,604</u>	<u>4,568,604</u>	<u>3,760,237</u>	<u>(808,367)</u>
<b>Expenditures:</b>				
Current:				
Instructional services	1,297,056	1,297,056	1,031,222	265,834
Supporting services:				
Students	18,114	18,114	15,090	3,024
Instructional staff	185,664	185,664	198,929	(13,265)
District administration	56,500	56,500	47,604	8,896
School administration	176,988	176,988	172,913	4,075
Business	181,171	181,171	184,073	(2,902)
Operation and maintenance of facilities	400,459	400,459	294,975	105,484
Transportation	299,200	299,200	271,662	27,538
Special education	174,414	174,414	136,244	38,170
Community service programs	28,988	28,988	24,468	4,520
Extracurricular programs	14,500	14,500	14,161	339
Food service	139,840	139,840	128,395	11,445
Total expenditures	<u>2,972,894</u>	<u>2,972,894</u>	<u>2,519,736</u>	<u>453,158</u>
Excess of revenues over expenditures	<u>1,595,710</u>	<u>1,595,710</u>	<u>1,240,501</u>	<u>(355,209)</u>
Net change in fund balances	<u>\$ 1,595,710</u>	<u>\$ 1,595,710</u>	1,240,501	<u>\$ (355,209)</u>
Fund balances - beginning			<u>1,206,179</u>	
Fund balances - ending			<u>\$ 2,446,680</u>	

**Billings County School District No. 1  
Notes to Required Supplementary Information  
Year Ended June 30, 2016**

**Budgets**

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

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

**Encumbrances**

All appropriations, except for construction in progress, lapse at the end of the fiscal year.

The District does utilize a formal encumbrance accounting system. Encumbrance accounting, which is an extension of the budgetary accounting in the General and Capital Projects Funds, enables the District to record purchase orders, contracts, and other commitments for the expenditure of monies in order to assign that portion of the applicable appropriation. Encumbrances at year end are shown as expenditures in the budget-to-actual statements and as assignments of fund balance on the balance sheet.

**Schedule of Employer's Share of Net Pension Liability  
ND Teachers' Fund for Retirement  
Last 10 Fiscal Years\***

	2015	2016
1. Employer's proportion of the net pension liability (asset)	0.125937	0.102741%
2. Employer's proportionate share of the net pension liability (asset)	\$1,319,596	\$1,343,703
3. Employer's covered-employee payroll	\$730,500	\$631,967
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	180.64%	212.62%
5. Plan fiduciary net position as a percentage of the total pension liability	66.6%	62.1%

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



**Schedule of Employer Contributions  
ND Teachers' Fund for Retirement  
Last 10 Fiscal Years\***

	2015	2016
Statutorily required contribution	\$78,528	\$80,572
Contributions in relation to the statutorily required contribution	\$(78,528)	\$(80,572)
Contribution deficiency (excess)	\$0	\$0
Employer's covered-employee payroll	\$730,500	\$631,967
Contributions as a percentage of covered-employee payroll	10.75%	12.75%

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

**Changes of assumptions.** 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.

**Schedule of Employer's Share of Net Pension Liability  
ND Public Employees Retirement System  
Last 10 Fiscal Years\***

	2015	2016
Employer's proportion of the net pension liability (asset)	0.041716%	0.047367%
Employer's proportionate share of the net pension liability (asset)	\$264,780	\$322,088
Employer's covered-employee payroll	\$351,405	\$421,983
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	75.35%	76.33%
Plan fiduciary net position as a percentage of the total pension liability	72.12%	77.15%

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

**Schedule of Employer Contributions  
ND Public Employees Retirement System  
Last 10 Fiscal Years\***

	2015	2016
Statutorily required contribution	\$25,020	\$32,053
Contributions in relation to the statutorily required contribution	\$(30,788)	\$(30,815)
Contribution deficiency (excess)	\$(5,768)	\$1,238
Employer's covered-employee payroll	\$351,405	\$421,983
Contributions as a percentage of covered-employee payroll	7.2%	7.6%

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

***Changes of assumptions.***

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.

## SUPPLEMENTARY INFORMATION

**Billings County School District No.1**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual**  
**Building Fund**  
Year Ended June 30, 2016

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>Revenues:</b>				
Earnings on investments	\$ 75,000	\$ 75,000	\$ 192,897	\$ 117,897
State aid	-	-	99,369	99,369
Total revenues	<u>75,000</u>	<u>75,000</u>	<u>292,266</u>	<u>217,266</u>
<b>Expenditures:</b>				
Current:				
Operations and maintenance	460,000	460,000	159,523	300,477
Total expenditures	<u>460,000</u>	<u>460,000</u>	<u>159,523</u>	<u>300,477</u>
Excess of revenues over expenditures	<u>(385,000)</u>	<u>(385,000)</u>	132,743	517,743
Net change in fund balances	<u>\$ (385,000)</u>	<u>\$ (385,000)</u>	132,743	<u>\$ 517,743</u>
Fund balances - beginning			<u>7,589,484</u>	
Fund balances - ending			<u>\$ 7,722,227</u>	



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

Licensed in North Dakota and Montana

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

Board of Trustees  
Billings County School District No. 1  
Medora, North Dakota 58645

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Billings County School District No. 1, Medora, North Dakota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Billings County School District No. 1, Medora, North Dakota's basic financial statements, and have issued our report thereon dated November 1, 2016.

#### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Billings County School District No. 1, Medora, North Dakota's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Billings County School District No. 1, Medora, North Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of Billings County School District No. 1, Medora, North Dakota's internal control.

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

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

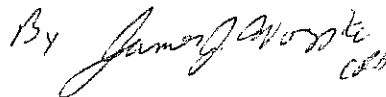
### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

James J. Wosepka, PC

By  *James J. Wosepka*

November 1, 2016  
Beach, North Dakota