

BOTTINEAU PUBLIC SCHOOL DISTRICT NO. 1
Bottineau, North Dakota

AUDIT REPORT
For the Year Ended June 30, 2016

BOTTINEAU PUBLIC SCHOOL DISTRICT NO. 1
Bottineau, North Dakota

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For the Year Ended June 30, 2016

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BOTTINEAU PUBLIC SCHOOL DISTRICT NO. 1
Bottineau, North Dakota

SCHOOL OFFICIALS

At June 30, 2016

<u>Official</u>	<u>Position</u>
Paul Olson	Board President
Larry Brooks	Board Vice-President
Kim Bernstein	Board Member
Stuart Coleman	Board Member
Mike Haberman	Board Member
Jeremy Kittleson	Board Member
Matt Johnson	Board Member
Jason Kersten	Superintendent
Deborah Nelson	Business Manager

LERVIK & JOHNSON

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

School Board
Bottineau Public School District No. 1
Bottineau, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Bottineau Public School District No. 1, Bottineau, 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 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 circumstance, 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 Bottineau Public School District No. 1, Bottineau, North Dakota, as of June 30, 2016, and the respective changes in financial position in accordance with accounting principles generally accepted in the United States of America.

Other Matters

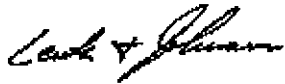
Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 30, the schedule of district's share of net pension liability for the last ten fiscal years on page 31, the schedule of the district's contributions for the last ten fiscal years on page 32, and the related notes on page 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financials 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2016, on our consideration of Bottineau Public School District No. 1'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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bottineau Public School District No. 1's internal control over financial reporting and compliance.



LERVIK & JOHNSON
Certified Public Accountants
Bottineau, North Dakota

August 18, 2016

BOTTINEAU PUBLIC SCHOOL DISTRICT NO. 1
Bottineau, North Dakota

STATEMENT OF NET POSITION
June 30, 2016

ASSETS:

Current Assets:

Cash	\$ 3,405,836.72
Investments	2,072,180.43
Taxes Receivable	104,402.97
Due from Local Sources	241,410.46
Due from State Government	35,672.29
Due from Federal Government	115,486.47
	5,974,989.34

Total Current Assets

5,974,989.34

Capital Assets (Net of Accumulated Depreciation):

Buildings	942,602.83
Equipment	1,978,844.73
	2,921,447.56

Total Capital Assets

2,921,447.56

Total Assets

8,896,436.90

DEFERRED OUTFLOWS OF RESOURCES:

Deferred Outflows Relating to Pensions	1,710,269.16
	1,710,269.16

LIABILITIES:

Current Liabilities:

Accounts Payable	98,493.35
Current Portion of Bonds Payable	115,000.00
	213,493.35

Total Current Liabilities

213,493.35

Noncurrent Liabilities:

Bonds Payable, Net of Current Portion	705,000.00
Premium on Bonds Payable	3,793.89
	708,793.89

Compensated Absences Payable

16,557.51

Net Pension Liability

8,865,937.00

Total Noncurrent Liabilities

9,591,288.40

Total Liabilities

9,804,781.75

DEFERRED INFLOWS OF RESOURCES:

Deferred Inflows Relating to Pensions	403,856.00
	403,856.00

NET POSITION:

Net Investment in Capital Assets	2,101,447.56
Restricted for:	
Capital Projects	216,683.96
Unrestricted	(1,920,063.21)
	2,398,068.31

Total Net Position

\$ 398,068.31

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

BOTTINEAU PUBLIC SCHOOL DISTRICT NO. 1
Bottineau, North Dakota

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Position
		Charges for Services	Operating Grants and Contributions	
GOVERNMENTAL ACTIVITIES:				
Regular Programs	\$ 4,268,578.13	\$ 1,700.00	\$ -	\$ (4,266,878.13)
Special Education	842,952.50	925.21	53,080.31	(788,946.98)
Vocational Education	480,560.46	-	79,627.78	(400,932.68)
Federal Programs	307,520.97	-	307,520.97	-
District Wide Services	159,009.13	-	-	(159,009.13)
Other Programs & Services	52,696.50	-	-	(52,696.50)
Administration	572,697.14	-	-	(572,697.14)
Operations and Maintenance	1,330,942.12	-	670,055.00	(660,487.12)
Food Service	496,582.94	135,684.91	230,442.45	(130,455.58)
Transportation	407,974.94	-	316,260.76	(91,714.18)
Student Activities	283,691.92	-	-	(283,691.92)
Interest	11,041.83	-	-	(11,041.83)
Total Governmental Activities	\$ 9,213,848.58	\$ 138,310.12	\$ 1,656,987.27	\$ (7,418,551.19)
<u>General Revenues:</u>				
Property Taxes				3,310,506.67
State aid-not restricted to specific programs				5,148,103.95
Earnings on investments and miscellaneous revenue				<u>142,981.76</u>
Total General Revenues				<u>8,601,592.38</u>
Change in Net Position				<u>1,183,041.19</u>
Net Position - July 1				<u>(784,972.88)</u>
Net Position - June 30				<u><u>\$ 398,068.31</u></u>

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

BOTTINEAU PUBLIC SCHOOL DISTRICT NO. 1
Bottineau, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2016

	General	Special Revenue	Capital Projects	Total Governmental Funds
<u>ASSETS:</u>				
Current Assets:				
Cash	\$ 1,796,073.92	\$ 8,533.95	\$ 1,601,228.85	\$ 3,405,836.72
Investments	983,894.12	-	1,088,286.31	2,072,180.43
Taxes Receivable	89,642.17	-	14,760.80	104,402.97
Due from Local Sources	226,096.69	-	15,313.77	241,410.46
Due from State Government	35,672.29	-	-	35,672.29
Due from Federal Government	115,223.77	262.70	-	115,486.47
Total Assets	\$ 3,246,602.96	\$ 8,796.65	\$ 2,719,589.73	\$ 5,974,989.34
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:</u>				
Current Liabilities:				
Accounts Payable	\$ 96,789.99	-	\$ 1,703.36	\$ 98,493.35
Deferred Inflows of Resources:				
Property Taxes Uncollected	89,642.17	-	14,760.80	104,402.97
<u>FUND BALANCES:</u>				
Restricted	-	-	216,683.96	216,683.96
Committed	-	-	2,486,441.61	2,486,441.61
Assigned	108,122.08	8,796.65	-	116,918.73
Unassigned	2,952,048.72	-	-	2,952,048.72
Total Fund Balances	3,060,170.80	8,796.65	2,703,125.57	5,772,093.02
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,246,602.96	\$ 8,796.65	\$ 2,719,589.73	\$ 5,974,989.34

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

BOTTINEAU PUBLIC SCHOOL DISTRICT NO. 1
Bottineau, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2016

Total Fund Balances for Governmental Funds		\$ 5,772,093.02
<i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
<p>Capital assets used in governmental activities are not current financial resources, so are not reported in the governmental funds.</p>		
Cost of Capital Assets	12,365,493.55	
Less Accumulated Depreciation	<u>(9,444,045.99)</u>	
Net Capital Assets		2,921,447.56
<p>Property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred inflows of resources in the governmental funds.</p>		
		104,402.97
<p>Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the Statement of Net Position.</p>		
Balances at June 30, 2016 are:		
Bonds Payable	(820,000.00)	
Compensated Absences	(16,557.51)	
Net Pension Liability	<u>(8,865,937.00)</u>	
		(9,702,494.51)
<p>Premiums on bonds payable are treated as other financing sources in the governmental funds, but are deferred to future periods in the Statement of Net Position (amortized over the life of the bonds).</p>		
		(3,793.89)
<p>Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.</p>		
Deferred Outflows of Resources Related to Pensions		1,710,269.16
Deferred Inflows of Resources Related to Pensions		<u>(403,856.00)</u>
Total Net Position of Governmental Activities		<u>\$ 398,068.31</u>

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

BOTTINEAU PUBLIC SCHOOL DISTRICT NO. 1
Bottineau, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	General	Special Revenue	Capital Projects	Total Governmental Funds
<u>Revenues:</u>				
Local Sources	\$ 3,030,089.70	\$ 145,281.32	\$ 334,242.05	\$ 3,509,613.07
State Sources	6,252,727.80	4,782.12	14,400.00	6,271,909.92
Federal Sources	307,520.97	225,660.33	-	533,181.30
Other Sources	80,281.05	-	-	80,281.05
Total Revenues	9,670,619.52	375,723.77	348,642.05	10,394,985.34
<u>Expenditures:</u>				
<u>Current:</u>				
Regular Programs	3,942,425.16	-	-	3,942,425.16
Special Education	842,952.50	-	-	842,952.50
Vocational Education	480,560.46	-	-	480,560.46
Federal Programs	307,520.97	-	-	307,520.97
District Wide Services	159,009.13	-	-	159,009.13
Other Programs and Services	52,696.50	-	-	52,696.50
Administration	572,697.14	-	-	572,697.14
Operations and Maintenance	710,391.21	-	599,935.91	1,310,327.12
Food Service	-	493,246.14	-	493,246.14
Transportation	346,495.25	-	-	346,495.25
Student Activities	283,691.92	-	-	283,691.92
Capital Outlay	82,900.00	-	505,199.25	588,099.25
<u>Debt Service:</u>				
Principal	53,267.00	-	56,733.00	110,000.00
Interest	11,265.00	-	-	11,265.00
Total Expenditures	7,845,872.24	493,246.14	1,161,868.16	9,500,986.54
Excess of Revenues Over (Under) Expenditures	1,824,747.28	(117,522.37)	(813,226.11)	893,998.80
<u>Other Financing Sources (Uses):</u>				
Transfers In	-	124,000.00	1,259,094.88	1,383,094.88
Transfers Out	(1,383,094.88)	-	-	(1,383,094.88)
Total Other Financing Sources (Uses)	(1,383,094.88)	124,000.00	1,259,094.88	-
Net Change in Fund Balances	441,652.40	6,477.63	445,868.77	893,998.80
Fund Balance - July 1	2,618,518.40	2,319.02	2,257,256.80	4,878,094.22
Fund Balance - June 30	\$ 3,060,170.80	\$ 8,796.65	\$ 2,703,125.57	\$ 5,772,093.02

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

BOTTINEAU PUBLIC SCHOOL DISTRICT NO. 1
Bottineau, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Net Change in Fund Balances-Total Governmental Funds \$ 893,998.80

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Current Year Capital Outlay	588,099.25	
Current Year Depreciation Expense	<u>(381,568.81)</u>	206,530.44

Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net Decrease in Compensated Absences		9,716.03
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Repayment of noncurrent liabilities is an expenditure in the governmental funds, but the repayment reduces noncurrent liabilities in the Statement of Net Position. Additionally, premiums or discounts related to the debt are included on the Statement of Net Position and amortized to interest expense over the life of the debt in the Statement of Activities.

Amortization of Bond Premium	223.17	
Principal Payments of Notes Payable	<u>110,000.00</u>	110,223.17

Some revenues reported in the Statement of Activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of the increase in taxes receivable.

1,904.43

Governmental funds report district pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employer contribution is reported as pension expense.

(39,331.68)

Net change in Net Position of Governmental Activities		<u>\$ 1,183,041.19</u>
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The accompanying notes are an integral part of these financial statements.

BOTTINEAU PUBLIC SCHOOL DISTRICT NO. 1
Bottineau, North Dakota

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2016

ASSETS:

Current Assets:

Cash and Investments	\$ 577,948.44
Due from State Government	97,687.68

Total Assets

675,636.12

LIABILITIES:

Current Liabilities:

Due to Student Activities Groups	340,983.44
Due to Others	334,652.68

Total Liabilities

675,636.12

NET POSITION:

Unrestricted

\$ -

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

BOTTINEAU PUBLIC SCHOOL DISTRICT NO. 1
Bottineau, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

The accompanying financial statements present the activities of the Bottineau Public School District No. 1. The school district has considered all potential component units for which the school district is financially accountable and other organizations for which the nature and significance of their relationships with the school district are such that exclusion would cause the school district's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body or an organization being fiscally dependent and (1) the ability of the Bottineau Public School District No. 1 to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, Bottineau Public School District No. 1.

Based on these criteria, there are no component units to be included within the Bottineau Public School District No. 1 as a reporting entity.

B. Financial Statement Presentation

Government-wide financial statements: The Statement of Net Position and the Statement of Activities display information about the primary government, Bottineau Public School District. These statements include the financial activities of the overall government, except fiduciary activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The Statement of Net Position presents the school district's nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the school district's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including taxes, are presented as general revenues.

Under the terms of grant agreements, the school district funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the school district's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Fund Financial Statements: 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. Any remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The school district reports the following major governmental funds:

General Fund. This is the school district's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Fund. This is the school district's hot lunch operating fund. It accounts for all financial resources related to food service.

Capital Projects Funds. This the school district's financial resources fund. It accounts for the acquisition, construction, maintenance and insurance of major facilities.

The school district does not have any nonmajor governmental funds.

The school district reports the following fiduciary fund types:

Agency Fund. This fund accounts for assets held by the school district in a custodial capacity as an agent on behalf of others. The school district's agency fund is used to account for various deposits of the student activity funds.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe *how* transactions are recorded within the various financial statements, and include the economic resources measurement focus and the current financial resources measurement focus.

Economic resources measurement focus: The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial or non-financial) are reported in the financial statements.

Current financial resources measurement focus: Under this measurement focus, only current financial assets and liabilities are generally included on the balance sheet. The operating statements present sources and uses of available, spendable financial resources during any given period. Using the current financial resources measurement focus, principal and interest on long-term debt, claims and judgments, and compensated absences are recorded as expenditures only when payment is due. This measurement focus also requires capital asset acquisitions to be reported as expenditures, and proceeds of general long-term debt and acquisitions under capital leases to be reported as other financing sources.

Basis of accounting refers to *when* the transactions are recorded, regardless of the measurement focus applied. The school district uses the accrual and the modified accrual bases of accounting, as discussed below.

Government-wide Financial Statements

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 at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the school district gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting in the governmental fund financial statements. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the school district considers revenue to be available if they are collected within 60 days after year-end. All revenues are considered to be susceptible to accrual.

Under the modified accrual basis of accounting, expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, differences exist from accrual accounting related primarily to payments involving long-term assets and liabilities. These differences were discussed above in the explanation of the current financial resources measurement focus.

D. Budgets

Based upon available financial information and requests by the school board, the business manager prepares the school district budget. The budget is prepared for the general fund on the modified accrual basis of accounting. The budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

School district taxes must be levied by the governing board on or before the fifteenth day of August. The taxes levied must be certified to the county August 25. The governing body of the school district may amend its tax levy and budget of the current fiscal year on or before the tenth day of October of each year, but the certification must be filed with the county auditor by October 10. The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.

E. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts and certificates of deposit with original maturities of three months or less. These amounts must be deposited with Bank of North Dakota or in a financial institution situated and doing business within this state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the uninsured balance.

State statutes authorize the school district to invest in:

- a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.
- b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or the state.
- d) Obligations of the state.

F. Interfund Transactions

In the governmental fund statements, transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

In the government-wide financial statements, interfund transactions have been eliminated.

G. Capital Assets

Capital assets include plant and equipment, and are reported in the government-wide financial statements. Capital assets are defined by the school district as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Buildings	30 years
Equipment	8 to 20 years

H. Noncurrent Obligations

Noncurrent obligations include long-term debt, compensated absences and net pension liabilities. In the government-wide financial statements, non-current obligations are reported as liabilities in the governmental activities Statement of Net Position. Bond premiums or discounts are capitalized and amortized over the term of the related obligation. Bond issuance costs are recorded as expenditures when paid.

Long-Term Debt

With respect to the presentation of governmental funds in the governmental fund financial statements, the face amount of debt issued is reported as another financing source. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Compensated Absences

Compensated absences consists of annual leave which is compensated at termination of employment at the employee's daily pay rate. The liability for the portion of compensated absences related to annual leave is reported in the government-wide Statement of Net Position.

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

I. Fund Equity

Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as non-spendable, restricted, committed, assigned or unassigned.

Non-spendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation.

Committed Fund Balance - represents amounts that can only be used for specific purposes imposed by a formal action of the school district's highest level of decision-making authority, the school board. Committed resources cannot be used for any other purpose unless the school board removes or changes the specified use by the same type of action previously used to commit those amounts, either by resolution or by ordinance.

Assigned Fund Balance - represents amounts the school district intends to use for specific purposes as expressed by the school board or an official delegated the authority to assign amounts. This is the residual classification for all governmental funds other than the general fund. As of June 30, 2016, the school board has not granted any official the right to assign amounts to a specific purpose.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the school district's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications - committed, assigned and then unassigned fund balances. The school district has not established a policy for its use of unrestricted fund balance amounts. As such, it considers committed amounts to be reduced first, followed by assigned amounts, and then by unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: CASH AND INVESTMENTS

The school district's deposits at year-end were entirely covered by federal depository insurance or by collateral held by the school district's agent in the school district's name. The investments of the school district during the year ended June 30, 2016 consisted of certificates of deposit stated at cost.

Custodial and Concentration of credit risk:

For deposits and investments, the custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the school district will not be able to recover collateral securities that are in the possession of an outside party. As discussed in Note 1-E, state statutes require the market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. As discussed above, the school district's deposits were adequately protected by insurance or collateral during the current fiscal year. These deposits are Category 1 deposits that include insured and registered investments for which the securities are held by the school district.

Interest rate risk:

Generally, the longer the maturity period of an investment, the greater the sensitivity of its fair value to changes in market interest rates. In accordance with its investment policy, the school district invests its operating funds primarily in short term certificates of deposit and limits the average maturity in accordance with the school district's cash requirements.

NOTE 3: TAXES RECEIVABLE

The taxes receivable represents the past three years of uncollected current and delinquent taxes. No allowance has been established for uncollectible taxes receivable.

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Any material tax collections are distributed after the end of each month.

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments. The first installment includes one-half of the real estate taxes and all the special assessments and the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed. Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15th and receive the discount on the property taxes.

NOTE 4: DUE FROM LOCAL SOURCES

The amount due from local sources consists of the cash on hand for taxes collected but not remitted to the school district at June 30 and other money due from miscellaneous local sources.

NOTE 5: DUE FROM STATE GOVERNMENT

The amount due from state government consists of the reimbursement claim for career and technical education.

NOTE 6: DUE FROM FEDERAL GOVERNMENT

The amount due from federal government consists of the final reimbursement claims from Title I, 21st Century, Title II Part A, Title VI REAP, and Fresh Fruits and Vegetables Program.

NOTE 7: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2016:

	Balance 7/1/2015	Increases	Deletions	Balance 6/30/2016
Governmental Activities:				
<i>Capital Assets Being Depreciated:</i>				
Buildings	\$ 7,762,593.00	\$ 616,600.00	\$ -	8,379,193.00
Equipment	3,958,536.00	82,900.00	55,135.45	3,986,300.55
Construction in Progress	111,400.75	505,199.25	616,600.00	-
Total Capital Assets, Being Depreciated	11,832,529.75	1,204,699.25	671,735.45	12,365,493.55
<i>Less Accumulated Depreciation For:</i>				
Buildings	7,231,777.24	204,812.93	-	7,436,590.17
Equipment	1,885,835.39	176,755.88	55,135.45	2,007,455.82
Total Accumulated Depreciation	9,117,612.63	381,568.81	55,135.45	9,444,045.99
Total Capital Assets Being Depreciated, Net	\$ 2,714,917.12	\$ 823,130.44	\$ 616,600.00	\$ 2,921,447.56

Depreciation expense was charged to functions/programs of the school district as follows:

<u>Governmental Activities:</u>	
Regular Programs	\$ 296,537.32
Transportation	61,479.69
Operations and Maintenance	20,215.00
Food Service	3,336.80
Total Depreciation- Governmental Activities	\$ 381,568.81

NOTE 8: ACCOUNTS PAYABLE

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

NOTE 9: DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Like revenues and expenses, deferrals represent flows of resources into and out of a government during the fiscal year. However, unlike revenues and expenses, which are inflows and outflows of resources related to the period in which they occur, deferrals are related to future periods.

Deferred inflows and outflows on the school district's statement of net position are related to the determination of the school district's net pension liability and pension expense, as detailed in Note 13.

Deferred inflows of resources on the fund financial statements consist of amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting such amounts are measurable but not available. The school district's only deferred inflow of financial resources on its fund financial statements is uncollected property taxes, which are not expected to be collected within the allotted 60 day time period after year end in order to qualify as available under the school district's policy.

NOTE 10: NONCURRENT LIABILITIES

During the year-ended June 30, 2016, the following changes occurred in noncurrent liabilities:

	Balance 7/1/2015	Additions	Deletions	Balance 6/30/2016
Bonds Payable	\$ 930,000.00	\$ -	\$ 110,000.00	\$ 820,000.00
Compensated Absences	26,273.54	-	9,716.03	16,557.51
	<u>\$ 956,273.54</u>	<u>\$ -</u>	<u>\$ 119,716.03</u>	<u>\$ 836,557.51</u>

Current due within one year:

Bonds Payable \$ 115,000.00

Bonds Payable

On June 5, 2013, the school district issued \$1,150,000.00 in Limited Tax Bonds Series 2013. The net proceeds included a premium of \$4,463.40. The bond payable and its related premium were recorded in noncurrent liabilities on the school district's statement of net position.

The premium was capitalized and will be amortized to interest expense on a straight-line basis (as the difference between the straight-line and effective interest methods was immaterial). The amount amortized in the current year was \$223.17.

The terms of the bond are as follows:

\$1,150,000.00 Limited Tax Bonds Series 2013 dated June 5, 2013 due in annual installments of \$110,000.00 to \$120,000.00, due on August 1, 2016 through 2023, with interest at 1.338% per annum due semimonthly on February 1 and August 1, commencing February 1, 2016.	\$ 820,000.00
Due within one year	<u>(115,000.00)</u>
Net Noncurrent portion	<u>\$ 705,000.00</u>

As of June 30, 2016, future payments on noncurrent debt are as follows:

GOVERNMENTAL ACTIVITIES		
Year Ending	Principal	Interest
June 30		
2017	\$ 115,000.00	\$ 10,165.00
2018	115,000.00	9,015.00
2019	115,000.00	7,865.00
2020	115,000.00	6,542.00
2021	120,000.00	5,220.00
2022-2023	240,000.00	5,580.00
Totals	<u>\$ 820,000.00</u>	<u>\$ 44,387.00</u>

NOTE 11: FUND BALANCE

Fund balance as of June 30, 2016 is as follows:

	General	Special Reserve	Capital Projects	Total
Fund Balances:				
Restricted				
Capital Projects	\$ -	\$ -	\$ 216,683.96	\$ 216,683.96
Committed				
Capital Projects	-	-	2,486,441.61	2,486,441.61
Assigned				
Character Counts	108,122.08	-	-	108,122.08
Food Service	-	8,796.65	-	8,796.65
Unassigned	2,952,048.72	-	-	2,952,048.72
	<u>\$ 3,060,170.80</u>	<u>\$ 8,796.65</u>	<u>\$ 2,703,125.57</u>	<u>\$ 5,772,093.02</u>

NOTE 12: TRANSFERS AND INTERFUND RECEIVABLE/PAYABLE

The general fund transferred \$124,000.00 to the special revenue fund to pay for food service expenses and \$1,259,094.88 to capital projects for capital improvements and repairs.

NOTE 13: PENSION PLANS

The school district has two employee pension plans, the North Dakota Teachers' Fund for Retirement (TFFR) and the North Dakota Public Employees Retirement System (NDPERS).

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 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.

Pension Benefits

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

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

- * 1 to 12 months of service - Greater of one percent of monthly salary or \$25
- * 13 to 24 months of service - Greater of two percent of monthly salary or \$25
- * 25 to 36 months of service - Greater of three percent of monthly salary or \$25
- * Longer than 36 months of service - Greater of four percent of monthly salary or \$25

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (All Plans)

At June 30, 2016, the school district reported a total liability of \$8,865,937.00 (\$7,834,824.00 for its proportionate share of TFFR's net pension liability and \$1,031,113.00 for its proportionate share of NDPERS' net pension liability). The net pension liabilities for both plans were measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability for each plan was determined by an actuarial valuation as of that date.

For TFFR, the school district's proportion of the net pension liability was based on the school district's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2015, the school district's proportion related to TFFR was 0.599059 percent, which was a decrease of 0.007341 percent from its proportion measured as of July 1, 2014.

Related to NDPERS, the school district's proportion of the net pension liability was based on the school district's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating NDPERS Main System employers. At July 1, 2015 the school district's proportion related to NDPERS was 0.151638 percent, which was an increase of 0.008966 percent from its proportion measured as of July 1, 2014.

For the year ended June 30, 2016 the school district recognized total pension expense of \$614,974.00, (\$507,587.00 related to TFFR and \$107,387.00 related to NDPERS). At June 30, 2016 the school district reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	TFFR		NDPERS		TOTAL	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 51,341.00	\$ -	\$ 29,914.00	\$ -	\$ 81,255.00	\$ -
Changes of assumption	879,716.00	-	-	91,867.00	879,716.00	91,867.00
Net difference between projected and actual earnings on pension plan investments	-	88,349.00	119,143.00	140,910.00	119,143.00	229,259.00
Changes in proportion and differences between district contributions and proportionate share of contributions	-	72,918.00	55,107.00	9,812.00	55,107.00	82,730.00
District contributions subsequent to the measurement date	479,345.80	-	95,702.36	-	575,048.16	-
Total	\$ 1,410,402.80	\$ 161,267.00	\$ 299,866.36	\$ 242,589.00	\$ 1,710,269.16	\$ 403,856.00

\$575,048.16 (\$479,345.80 from TFFR and \$95,702.36 from NDPERS) reported as deferred outflows of resources related to pensions resulting from the school district's 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:

	TFFR	NDPERS	TOTAL
Year Ended June 30:			
2017	\$ 77,701.00	\$ (18,822.00)	\$ 58,879.00
2018	77,701.00	(18,822.00)	58,879.00
2019	77,701.00	(18,822.00)	58,879.00
2020	255,974.00	26,156.00	282,130.00
2021	144,657.00	(8,153.00)	136,504.00
Thereafter	136,357.00	-	136,357.00

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:

	TFFR	NDPERS
Inflation	2.75%	3.50%
Salary Increases	4.25% to 14.50%, varying by service, including inflation and productivity	4.50% per annum
Investment rate of return	7.75%, net of investment expenses	8.00%, net of investment expenses
Cost-of-living adjustments	None	None

TFFR specific actuarial assumptions:

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:

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.

NDPERS specific actuarial assumptions:

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 Retiree 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%

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 School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate (All Plans)

The following presents the school district's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent for TFFR and 8 percent for NDPERS, as well as what the school district's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	District's Proportionate Share of Net Pension Liability		
	1% Decrease (6.75%)	Current Discout Rate (7.75%)	1% Increase (8.75%)
TFFR	\$ 10,354,091.00	\$ 7,834,824.00	\$ 5,733,809.00
	1% Decrease (7.00%)	Rate (8.00%)	1% Increase (9.00%)
NDPERS	\$ 1,581,159.00	\$ 1,031,113.00	\$ 581,075.00

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

NOTE 14: RISK MANAGEMENT

The Bottineau Public 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 Bottineau Public School District No. 1 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 two million dollars per occurrence.

The Bottineau Public School District No. 1 also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The Bottineau Public School District No. 1 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 one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the political subdivision with blanket fidelity bond coverage in the amount of \$2,000,000.00 for its employees. The State Bonding Fund does not currently charge any premium for this coverage. The Bottineau Public School District No. 1 has insurance with North Dakota Workforce Safety and Insurance 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.

NOTE 15: SUBSEQUENT EVENTS

The school district has evaluated subsequent events through August 18, 2016, the date which the financial statements were available to be issued.

BOTTINEAU PUBLIC SCHOOL DISTRICT NO. 1
Bottineau, North Dakota

BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
For the Year Ended June 30, 2016

	Original & Final Budget	Actual	Variance Positive (Negative)
<u>Revenues:</u>			
Local Sources	\$ 3,177,855.00	\$ 3,030,089.70	\$ (147,765.30)
State Sources	6,431,931.45	6,252,727.80	(179,203.65)
Federal Sources	332,984.51	307,520.97	(25,463.54)
Other Sources	80,383.00	80,281.05	(101.95)
Total Revenues	10,023,153.96	9,670,619.52	(352,534.44)
<u>Expenditures:</u>			
Current:			
Regular Programs	4,030,667.45	3,942,425.16	(88,242.29)
Special Education	888,520.55	842,952.50	(45,568.05)
Vocational Education	513,713.00	480,560.46	(33,152.54)
Federal Programs	332,984.24	307,520.97	(25,463.27)
District Wide Services	158,493.00	159,009.13	516.13
Other Programs and Services	48,672.00	52,696.50	4,024.50
Administration	564,207.00	572,697.14	8,490.14
Operations and Maintenance	824,482.25	710,391.21	(114,091.04)
Transportation	577,984.00	346,495.25	(231,488.75)
Student Activities	277,997.27	283,691.92	5,694.65
Capital Outlay		82,900.00	82,900.00
Debt Service:			
Principal	53,267.00	53,267.00	-
Interest	11,265.00	11,265.00	-
Total Expenditures	8,282,252.76	7,845,872.24	436,380.52
Excess of Revenues Over (Under) Expenditures	1,740,901.20	1,824,747.28	83,846.08
<u>Other Financing Sources (Uses):</u>			
Operating Transfers Out	(1,499,076.00)	(1,383,094.88)	115,981.12
Net Change in Fund Balance	241,825.20	441,652.40	199,827.20
Fund Balance - July 1	2,618,518.40	2,618,518.40	-
Fund Balance - June 30	\$ 2,860,343.60	\$ 3,060,170.80	\$ 199,827.20

See accompanying notes to required supplementary information.

BOTTINEAU PUBLIC SCHOOL DISTRICT NO. 1
Bottineau, North Dakota

SCHEDULE OF DISTRICT'S SHARE OF NET PENSION LIABILITY
LAST 10 FISCAL YEARS*

	As of and for the Year Ended June 30,	
	2016	2015
ND Teachers' Fund for Retirement:		
1. District's proportion of the net pension liability (asset)	0.599059%	0.606400%
2. District's proportionate share of the net pension liability (asset)	\$7,834,824.00	\$6,353,997.00
3. District's covered-employee payroll	\$3,684,839.00	\$3,517,441.00
4. District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	212.62%	180.64%
5. Plan fiduciary net position as a percentage of the total pension liability	62.10%	66.60%
	As of and for the Year Ended June 30,	
	2016	2015
ND Public Employees Retirement System:		
1. District's proportion of the net pension liability (asset)	0.151638%	0.142672%
2. District's proportionate share of the net pension liability (asset)	\$1,031,113.00	\$905,570.00
3. District's covered-employee payroll	\$1,350,911.00	\$1,201,842.00
4. District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	76.33%	75.35%
5. Plan fiduciary net position as a percentage of the total pension liability	77.15%	77.70%

* Complete data for these schedules is not available prior to 2015. The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

See accompanying notes to required supplementary information.

BOTTINEAU PUBLIC SCHOOL DISTRICT NO. 1
Bottineau, North Dakota

SCHEDULES OF DISTRICT'S CONTRIBUTIONS
LAST 10 FISCAL YEARS*

	As of and for the Year Ended June 30,	
	2016	2015
<u>ND Teachers' Fund for Retirement:</u>		
Statutorily required contribution	\$469,795.00	\$378,122.00
Contributions in relation to the statutorily required contribution	(\$469,795.00)	(\$378,122.00)
Contribution deficiency (excess)	\$0.00	\$0.00
District's covered-employee payroll	\$3,684,839.00	\$3,517,441.00
Contributions as a percentage of covered-employee payroll	12.75%	10.75%

	As of and for the Year Ended June 30,	
	2016	2015
<u>ND Public Employees Retirement System:</u>		
Statutorily required contribution	\$102,612.00	\$85,571.00
Contributions in relation to the statutorily required contribution	(\$90,830.00)	(\$85,571.00)
Contribution deficiency (excess)	\$11,782.00	\$0.00
District's covered-employee payroll	\$1,350,911.00	\$1,201,842.00
Contributions as a percentage of covered-employee payroll	7.60%	7.12%

* Complete data for these schedules is not available prior to 2015.

See accompanying notes to required supplementary information.

BOTTINEAU PUBLIC SCHOOL DISTRICT NO. 1
Bottineau, North Dakota

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016

NOTE 1: BUDGETARY COMPARISON SCHEDULE

Basis of Accounting:

Based upon available financial information and requests by the school board, the business manager prepares the school district budget. The budget is prepared for the general fund on the modified accrual basis of accounting. The budget includes the proposed expenditures and the means of financing them. The school district does not prepare a budget for the special reserve fund or debt service fund, as state law does not require a budget for those funds. Since a budget was not prepared, the statement comparing budget and actual results could not be prepared. All annual appropriations lapse at year-end.

Relevant Dates:

School district taxes must be levied by the governing board on or before the fifteenth day of August. The taxes levied must be certified to the county auditor by August 25. The governing body of the school district may amend its tax levy and budget of the current fiscal year on or before the tenth day of October of each year, but the certification must be filed with the county auditor by October 10. The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.

NOTE 2: PENSION PLANS

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

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

NDPERS Changes of Assumptions. Amounts related to NDPERS 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.

LERVIK & JOHNSON

Certified Public Accountants

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

School Board
Bottineau Public School District No. 1
Bottineau, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Bottineau Public School District No. 1, Bottineau, North Dakota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Bottineau Public School District No. 1, Bottineau, North Dakota's basic financial statements and have issued our report thereon dated August 18, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bottineau Public School District No. 1, Bottineau, 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 Bottineau Public School District No. 1, Bottineau, North Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of Bottineau Public School District No. 1, Bottineau, North Dakota'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.

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, item 16-1, to be material weaknesses.

Compliance and Other Matters

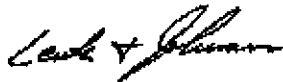
As part of obtaining reasonable assurance about whether Bottineau Public School District No. 1, Bottineau, North Dakota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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*.

Bottineau Public School District No. 1's Response to Findings

Bottineau Public School District No. 1, Bottineau, North Dakota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Bottineau Public School District No. 1, Bottineau, North Dakota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion on it.

Purpose of this Report

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



LERVIK & JOHNSON
Certified Public Accountants
Bottineau, North Dakota

August 18, 2016

BOTTINEAU PUBLIC SCHOOL DISTRICT NO. 1
Bottineau, North Dakota

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2016

FINDINGS-FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

16-1 Segregation of Duties

Condition:

Bottineau Public School District No. 1, Bottineau, North Dakota, has one business manager responsible for most accounting functions.

Criteria:

There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over the assets of the school district.

Effect:

There is no segregation of duties as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements. This increases the risk of misstatement of the school district's financial condition.

Recommendation:

Due to the size of the school district, it is not feasible to obtain proper segregation of duties and no recommendation will be made.