

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19

DRAYTON, NORTH DAKOTA

BASIC FINANCIAL STATEMENTS
AS OF
JUNE 30, 2016
AND
INDEPENDENT AUDITOR'S REPORT

V. NELSON CPA, LTD.

CPA

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19
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DRAYTON PUBLIC SCHOOL DISTRICT NO. 19

LIST OF OFFICIALS

2016-2017

President	Michael Emanuelson
Vice-President	Michael Larson
Director	Jessica Aasand
Director	Christine McFarland
Director	Julie Scott
Superintendent	Dean Ralston
Business Manager	Judy Stellan

2015-2016

President	Mark Hatloy
Vice-President	Michael Emanuelson
Director	Jessica Aasand
Director	Michael Larson
Director	Chris Littlejohn
Superintendent	Dean Ralston
Business Manager	Judy Stellan



V. NELSON CPA LTD.

INDEPENDENT AUDITOR'S REPORT

516 Main Avenue
Oakes, ND 58474
(701)742-3375
fax(701)742-3376

To the President and Board
Drayton Public School District No. 19
Drayton, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Drayton Public School District No. 19, 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, each major fund, and the aggregate remaining fund information of Drayton Public School District No. 19, 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 5-11 and 47 and the Schedule of the Proportionate Share of the Net Pension Liability and the Schedule of Board Contributions on pages 45 and 46 respectively 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 Drayton Public School District No. 19's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were 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 combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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 Drayton Public School District No. 19'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 Drayton Public School District No. 19's internal control over financial reporting and compliance.

V. Nelson CPA, Ltd.

V. Nelson CPA, Ltd.

Oakes, North Dakota
November 1, 2016

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19
MANAGEMENT DISCUSSION AND ANALYSIS
(UNAUDITED)

The management's discussion and analysis of Drayton Public School District No. 19's financial performance provides an overall review of the District's financial activities for the year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.

Financial Highlights

Key financial highlights for the year ended June 30, 2016 are as follows:

- * Net position of the District increased by \$215,903 as a result of the current years operations.
 - * The District's net position totaled \$796,815.
 - * Total revenues from all sources were \$3,671,644.
 - * Total expenses were \$3,455,741.
 - * The District's general fund had \$3,152,838 in total revenues, \$3,046,699 in expenditures and net transfers out of \$91,905.
- Overall the general fund balance increased by \$63,684 for the year ended June 30, 2016.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the District's basic financial statements. The basic financial statements include; (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The District also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The District's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Position*. This is the District-wide statement of financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating, respectively. Evaluation of the overall economic health of the District would extend to other nonfinancial factors in addition to the financial information provided in this report, such as changes in the District's tax base.

The second government-wide statement is the *Statement of Activities* which reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the District's distinct activities or functions on revenues provided.

In the *Statement of Net Position* and the *Statement of Activities*, the District reports governmental activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The District uses funds to ensure and demonstrate compliance with finance related laws and regulations. Within the basic financial statements, fund financial statements focus on the District's most significant funds rather than the District as a whole. The District's major governmental funds are the General Fund and the Bond Sinking Fund.

Governmental Funds

The District's activities are reported in governmental funds, which focuses on how money flows into and out of those funds and balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the *Statement of Net Position* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

Fiduciary Funds

The District is the trustee, or fiduciary, for certain funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The school district's only fiduciary funds are the School Activity Fund and the Private Purpose Trust Fund. The Activity Fund which is used primarily to segregate money held in trust for student organizations and similar activities. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Financial Analysis of the District as a Whole

As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the District as a whole.

The District's net position at fiscal year-end is \$796,815. This is a \$215,903 increase over last year's net assets of \$580,912. The major increase to net position is the result of the state's per pupil aid payment. The following table provides a summary of the District's net position at June 30, 2016 and 2015. The District's overall financial position improved during fiscal year 2016.

Table 1 Summary of Net Position

	June 30, 2016	June 30, 2015	%Change 2016-2015
ASSETS			
Current Assets	\$1,728,321	\$ 1,593,474	8.5%
Non Current Assets (Net of accumulated depreciation)	<u>4,507,183</u>	<u>4,499,600</u>	.2%
Total Assets	<u>\$6,235,504</u>	<u>\$ 6,093,074</u>	2.3%
Deferred Outflows of resources	664,590	195,844	239.3%
LIABILITIES			
Current Liabilities	\$ 198,658	\$ 173,066	14.8%
Long-Term Liabilities	<u>5,779,928</u>	<u>5,278,230</u>	9.5%
Total Liabilities	<u>\$5,978,586</u>	<u>\$ 5,451,296</u>	9.7%
Deferred Inflows of resources	124,693	256,710	(51.4%)

NET POSITION

Invested in Capital assets			
Net of related debt	\$1,305,085	\$ 1,191,822	9.5%
Restricted for:			
Debt Service	418,304	387,984	7.8%
Capital projects	0	2,340	(100.0%)
Special revenue	131,394	112,992	16.3%
Unrestricted	<u>(1,057,968)</u>	<u>(1,114,226)</u>	<u>5.0%</u>
	<u>\$ 796,815</u>	<u>\$ 580,912</u>	<u>37.2%</u>

Table 2 Summary of Changes in Net Position

	June 30, 2016	June 30, 2015	Variance 2016-2015
Revenues			
Program Revenues:			
Charges for Services	\$ 78,528	\$ 93,379	(15.9%)
Operating Grants and Contributions	461,018	439,089	5.0%
General Revenues:			
Taxes	1,338,943	1,293,597	3.5%
State Aid	1,770,583	1,731,558	2.3%
Interest income	883	859	2.8%
Miscellaneous	<u>21,689</u>	<u>16,379</u>	<u>32.4%</u>
	<u>\$3,671,644</u>	<u>\$ 3,574,861</u>	<u>2.7%</u>
Expenses			
Instruction	\$1,814,744	\$ 1,796,778	1.0%
Pupil services	35,443	59,363	(40.3%)
Instructional staff services	165,101	115,762	42.6%
General admin. services	411,178	222,550	84.8%
School admin. services	99,267	99,366	(.1%)
Business	231	40,743	(99.4%)
Operation & maint. of plant	305,214	336,644	(9.3%)
Pupil transportation services	139,375	178,566	(21.9%)
Extracurricular	117,070	120,865	(3.1%)
Food services outlays	166,745	155,697	7.1%
Other support services	140,470	117,877	19.2%
Interest on long-term debt	<u>60,903</u>	<u>62,003</u>	<u>(1.8%)</u>
Total Expenses	<u>\$3,455,741</u>	<u>\$ 3,306,214</u>	<u>4.5%</u>
(Decrease) Increase in Net Position	<u>\$ 215,903</u>	<u>\$ 268,647</u>	<u>(19.6%)</u>

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

Table 3	Total Cost for Year Ended <u>June 30, 2016</u>	Net Cost (Revenue) for Year Ended <u>June 30, 2016</u>
Instruction	\$1,814,744	\$1,477,783
Pupil services	35,443	35,443
Instructional staff services	165,101	165,101
General admin. services	411,178	411,178
School admin. services	99,267	99,267
Business services	231	231
Operation & maint. of plant	305,214	305,214
Pupil transportation services	139,375	65,699
Extracurricular	117,070	97,953
Food services outlays	166,745	56,953
Other support services	140,470	140,470
Interest on Long-term debt	60,903	60,903
Total Expenses	<u>\$3,455,741</u>	<u>\$2,916,195</u>

Financial analysis of the District's Governmental Funds

The focus of the District's governmental funds is to provide information on the near-term inflows, outflows, and balances of available resources. Unreserved fund balance generally may be used as a measure of the District's net resources available for spending at the end of the fiscal year. These funds are accounted for using the modified accrual basis of accounting. The District's governmental funds had total revenues of \$3,649,755 and expenditures of \$3,589,139 for the year ended June 30, 2016. As of June 30, 2016 the unreserved fund balance of the District's governmental fund was \$1,627,174. There was an increase in the District's net position and an increase in the District's unreserved fund balance. The net resources available for spending in the District's General Fund increased.

While the District is in sound financial condition, some changes have occurred in the overall position including the following:

1. Although enrollment appears to have increased, enrollment remains a concern due to the heavy emphasis enrollment has on the State funding.
2. The mill levy reduction legislation continues to concern due to the timing of the deadlines. An error in funding request could result in a loss of funding from the State through this mechanism. In addition, the "state average" cap placed upon revenues leveled locally is a cost to the bottom line. This change is not equitable to non-equity districts as full valuations are being utilized to calculate the valuation per pupil, while "state average" figures are used to calculate payments.
3. Continued prudent use and management of resources will help ensure the financial viability of the Drayton School District.
4. The Drayton School District continues to explore the feasibility of the sharing of services with our neighboring school districts in an effort to be more fiscally responsible.

An analysis of balances and transactions of individual funds:

1. General Fund expenditures continue to be dominated by personnel costs. These "fixed" costs provide for very little flexibility within the budget.
2. The Activity Account continues to be administered by the Business Manager with monthly activity - revenues, expenditures, and balances monitored by the Superintendent and School Board.
3. The Hot Lunch Fund is an area of continued concern. The prices for lunch and breakfast increased at the July 14, 2015, board meeting.

General Fund Budgeting Highlights

During the course of the fiscal 2015-2016 year, the District did not amend its general fund budget. The actual revenue for the year ended June 30, 2016, was under the original budget by \$49,861 (1.6%). The most significant variance increase was the amount the district received from per pupil aide. The actual expenditures for the year ended June 30, 2016, were under the original budget by \$302,281 (9.0%). The most significant variance in expense was in the amount the District spent on regular instruction. The total expenditures for the General Fund for 2014-2015 was \$2,979,472. The total expenditures for 2015-2016 increased by \$67,227 (2.2%) to \$3,046,699.

Capital Assets

As of June 30, 2016, the District had \$4,507,183 invested in capital assets. The main improvement on the immediate schedule is the purchase of vehicles. As indicated in Note 5 capital assets increased by \$178,032. Fixed costs will continue to burden the school district.

Debt Administration

The Drayton Public School entered into a General Obligation Bonds on February 20, 2013. The original issue amount was \$3,150,000, payments will be made through August 1, 2032.

The Drayton Public School entered into a Capital Lease on October 10, 2012, for energy services. The amount of the lease was \$417,859. Payments will be made through September 1, 2027.

The Drayton Public School entered into a master capital payable on October 30, 2015, for a 2016 school bus. The total amount of payable is \$49,450. Payments will be made through November 1, 2018.

Significant factors that can affect the financial position or results of operations in the future

1. Although enrollment appears to have increased, any decline could create significant funding concerns.

2. We will need to continue to monitor legislative action relative to school funding, change is magnified for small school districts.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's finances and to show the accountability for the money received. If you have any questions, please contact Drayton Public School District No. 19 108 S. 5th St., Drayton, ND 58225, Phone (701) 454-3324.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19
STATEMENT OF NET POSITION
AS OF JUNE 30, 2016

ASSETS	<u>Governmental Activities</u>
Current Assets:	
Cash and cash equivalents	\$ 1,533,614
Property taxes receivable	80,319
Due from local sources	<u>114,388</u>
Total current assets	1,728,321
Non Current Assets:	
Capital assets	6,353,640
Less accumulated depreciation	<u>1,846,457</u>
Total non current assets	4,507,183
Total Assets	<u>\$ 6,235,504</u>
DEFERRED OUTFLOWS OF RESOURCES	664,590
LIABILITIES	
Current Liabilities:	
Payroll & Benefits Payable	\$ 20,828
Current portion of long-term debt	
Due within one year:	
Capital Lease	32,830
Revenue Bonds Payable	<u>145,000</u>
Total current liabilities	198,658
Long Term Liabilities:	
Net Pension Liability	2,755,660
Due after one year:	
Capital Lease	369,268
Revenue Bonds Payable	<u>2,655,000</u>
Total long-term liabilities	5,779,928
Total Liabilities	<u>5,978,586</u>
DEFERRED INFLOWS OF RESOURCES	124,693
NET POSITION	
Invested in capital assets,	
Net of related debt	1,305,085
Restricted for:	
Debt service	418,304
Capital projects	0
Special revenue	131,394
Unrestricted	<u>(1,057,968)</u>
Total Net Position	<u>\$ 796,815</u>

See the accompanying notes to the basic financial statements.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19
STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Net (Expense) Revenue and Changes In Net Position		
		Charges For Service	Operating Grants/ Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$1,115,363	\$20,521	\$ 91,653	\$(1,003,189)
Special education	670,970		224,787	(446,183)
Vocational education	<u>28,411</u>			<u>(28,411)</u>
Total instruction	1,814,744	20,521	316,440	(1,477,783)
Support services				
Pupil services	35,443			(35,443)
Instructional staff services	165,101			(165,101)
General admin. services	411,178			(411,178)
School admin. services	99,267			(99,267)
Business services	231			(231)
Operation & maint. of plant	305,214			(305,214)
Pupil transportation services	139,375		73,676	(65,699)
Extracurricular	117,070	19,117	0	(97,953)
Food services outlays	166,745	38,890	70,902	(56,953)
Other support services	140,470			(140,470)
Interest on long-term debt	<u>60,903</u>	<u>0</u>	<u>0</u>	<u>(60,903)</u>
Total support services	1,640,997	58,007	144,578	(1,438,412)
Total governmental activities	<u>\$3,455,741</u>	<u>\$78,528</u>	<u>\$ 461,018</u>	<u>\$(2,916,195)</u>

General Revenues

Property Taxes:	
Taxes levied for general purposes	875,199
Taxes levied for high school tuition	70,195
Taxes levied for renovation	112,813
Taxes levied for bonds	250,534
Taxes levied for Special Reserve	30,202
State aid not restricted for specific purposes	
Per pupil aid	1,770,583
Interest income	883
Sale of Equipment	0
Miscellaneous revenue	<u>21,689</u>
Total General Revenues	<u>\$ 3,132,098</u>
Change in Net Position	\$ 215,903

Net Position beginning of year	<u>580,912</u>
Net Position end of year	<u>\$ 796,815</u>

See the accompanying notes to the basic financial statements.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2016

Major Funds

	General Fund	Capital Projects Fund	Bond Sinking Fund	Special Reserve Fund	Other Govern- mental	Total Govern- mental Funds
Assets:						
Cash and cash equivalents	\$1,016,850	\$ (32,934)	\$418,304	\$130,931	\$ 463	\$1,533,614
Property taxes receivable	56,370	6,751	15,406	1,792		80,319
Due from local sources	114,388					114,388
Due from state governments						
Due from federal governments						
Due from other funds		32,934				32,934
Total assets	<u>\$1,187,608</u>	<u>\$ 6,751</u>	<u>\$433,710</u>	<u>\$132,723</u>	<u>\$ 463</u>	<u>\$1,761,255</u>
Liabilities, Deferred Inflows of Resources and Fund Balances:						
Due to other funds	\$ 32,934					\$ 32,934
Payroll & Benefits Payable	20,828	\$ 0	\$ 0	\$ 0	\$ 0	20,828
Total liabilities	53,762	0	0	0	0	53,762
Deferred Inflows of Resources						
Uncollected taxes	56,370	6,751	15,406	1,792	0	80,319
Total Liabilities and Deferred Inflows of Resources	<u>110,132</u>	<u>6,751</u>	<u>15,406</u>	<u>1,792</u>	<u>0</u>	<u>134,081</u>
Fund Balances						
Restricted:						
Restricted for						
Debt service			418,304			418,304
Capital Projects		0				0
Assigned:						
Assigned for Special Revenue			0	130,931	463	131,394
Unassigned	1,077,476	0				1,077,476
Total fund balances	<u>1,077,476</u>	<u>0</u>	<u>418,304</u>	<u>130,931</u>	<u>463</u>	<u>1,627,174</u>
Total liabilities, Deferred Inflows of Resources and fund balances	<u>\$1,187,608</u>	<u>\$ 6,751</u>	<u>\$433,710</u>	<u>\$132,723</u>	<u>\$ 463</u>	<u>\$1,761,255</u>

See the accompanying notes to the basic financial statements.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO DISTRICT-WIDE STATEMENT OF NET POSITION
AS OF JUNE 30, 2016

Amounts reported for government activities in the statement of net assets are different because:

Total Fund Balance For Governmental Funds	\$ 1,627,174
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Total net position reported for government activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost of Capital Assets	\$6,353,640	
Less Accumulated Depreciation	<u>1,846,457</u>	
Net Capital Assets		4,507,183

Property taxes receivable 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 funds. 80,319

Long term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. These long-term liabilities consisted of Bonds Payable and Capital Leases.

Bus Master Payable	(49,450)
Capital Lease Payable	(352,648)
Bonds Payable	(2,800,000)

Deferred Outflows of resources related to pensions	664,590
Net Pension liability	(2,755,660)
Deferred Inflows of resources related to pensions	<u>(124,693)</u>

Total Net Position-Governmental Activities	<u>\$ 796,815</u>
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See the accompanying notes to the basic financial statements.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016

	<u>Major Funds</u>					Total
	General	Capital	Bond	Special	Other	Governmental
	Fund	Projects	Sinking	Reserve	Governmental	Funds
		Fund	Funds	Funds	Funds	
Revenues:						
Property taxes	\$ 930,150	\$ 110,763	\$ 246,778	\$ 29,363	\$ 0	\$ 1,317,054
Other local sources	61,989				39,111	101,100
State sources	2,069,046	0			1,039	2,070,085
Federal sources	91,653	0			69,863	161,516
Total revenues	<u>3,152,838</u>	<u>110,763</u>	<u>246,778</u>	<u>29,363</u>	<u>110,013</u>	<u>3,649,755</u>
Expenditures:						
Current						
Instruction:						
Regular	1,086,048	0				1,086,048
Special education	670,970	0				670,970
Vocational education	28,411	0				28,411
Total instruction	<u>1,785,429</u>	<u>0</u>	<u>0</u>		<u>0</u>	<u>1,785,429</u>
Support services:						
Pupil services	35,443	0				35,443
Instructional staff						
services	165,101	0				165,101
General administrative						
services	352,449	0				352,449
School administrative						
services	99,267	0				99,267
Business services	231	0				231
Operations & maintenance	196,993	0				196,993
Pupil transportation						
services	92,974	0				92,974
Extracurricular	115,022	0				115,022
Food services outlays					166,745	166,745
Other support services		140,045	425			140,470
Debt service						
Principal			155,130		0	155,130
Interest			60,903		0	60,903
Capital outlays						
Other capital outlays	203,790	5,992			13,200	222,982
Total support services	<u>1,261,270</u>	<u>146,037</u>	<u>216,458</u>	<u>0</u>	<u>179,945</u>	<u>1,803,710</u>
Total expenditures	<u>3,046,699</u>	<u>146,037</u>	<u>216,458</u>	<u>0</u>	<u>179,945</u>	<u>3,589,139</u>
Excess (deficiency) of						
revenues over (under)						
expenditures	106,139	(35,274)	30,320	29,363	(69,932)	60,616
OTHER FINANCING SOURCES (USES)						
Loan Proceeds issued	49,450					49,450
Transfer from other funds		32,934			58,971	91,905
Transfer to other funds	(91,905)	0			0	(91,905)
Total other financing						
sources (uses)	(42,455)	32,934	0	0	58,971	49,450
Net Change in Fund						
Balances	63,684	(2,340)	30,320	29,363	(10,961)	110,066
Fund balance						
Beginning of year	1,013,792	2,340	387,984	101,568	11,424	1,517,108
End of year	<u>\$1,077,476</u>	<u>\$ 0</u>	<u>\$ 418,304</u>	<u>\$130,931</u>	<u>\$ 463</u>	<u>\$ 1,627,174</u>

See the accompanying notes to the basic financial statements.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19
 RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF
 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE WITH
 THE DISTRICT-WIDE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2016

Net Change in Fund Balance-Total Governmental Funds \$ 110,066

The change in net position reported for governmental activities in the statement of net activities is 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. This is the amount by which depreciation exceeded capital outlay in the current year.

Capital outlay	\$ 222,982	
Depreciation expense	<u>(215,399)</u>	
Excess (Deficiency) of capital outlay over Depreciation Expense		7,583

Contributions to the pension plan in the current fiscal year are not included in the statement of activities	171,426
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Some revenues will not be collected for several months after the District's fiscal year end. These revenues are not considered "available" resources in the government funds. These consist of Net change in property taxes receivable.	21,889
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The proceeds of debt issuances are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which debt proceeds exceeded repayment of debt.

Issuance of Bus Master Payable	(49,450)	
Repayment of Capital Lease	15,130	
Repayment of debt	<u>140,000</u>	105,680

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 the governmental funds.

Pension expense	<u>(200,741)</u>
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Net Change in Net Position of Governmental Activities	<u>\$ 215,903</u>
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See the accompanying notes to the basic financial statements.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19
STATEMENT OF FIDUCIARY NET POSITION
 AS OF JUNE 30, 2016

	<u>Agency Fund</u>	<u>Private Purpose Trust Funds</u>
ASSETS:		
Cash	\$55,878	\$ 2,643
Investments	<u>0</u>	<u>82,000</u>
Total Assets	<u>\$55,878</u>	<u>\$84,643</u>
LIABILITIES:		
Due to Students Activities Groups	<u>\$55,878</u>	<u>\$</u>
Nonexpendable Net Position:		
Held in Trust for Others	<u>\$ 0</u>	<u>\$84,643</u>

See the accompanying notes to the basic financial statements.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Private Purpose Trust Fund</u>
<u>ADDITIONS</u>	
Interest	<u>\$ 1,643</u>
<u>DEDUCTIONS</u>	
Change in Net Position	<u>\$ 1,643</u>
Net Position July 1	<u>83,000</u>
Net Position June 30	<u><u>\$ 84,643</u></u>

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

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DRAYTON PUBLIC SCHOOL DISTRICT NO. 19
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1 DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Drayton Public School District No. 19 operates the public school in the town of Drayton, North Dakota. There is one school, which includes elementary, junior high, and high school.

Reporting entity - Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of an organization's governing body and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources. Component units may also include organizations that are fiscally dependent on the District. Fiscal dependence can include the District's approval of the budget, issuance of debt, and/or levying of taxes for the organization. Based on the above criteria, there are no component units to be included within the Drayton Public School District No. 19 as a reporting entity.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles. The District's government-wide financial statements apply Financial Accounting Standards Board (FASB) Statements and Interpretations, provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. BASIS OF PRESENTATION - The District's basic financial statements consist of government-wide statements and funds financial statements.

Government-wide Financial Statements - The government-wide financial statements consist of a statement of net position and a statement of activities. These statements display information about the District as a whole.

The statement of net position presents the financial condition of the governmental activities of the District at year-end.

The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. The statement identifies the extent to which each governmental function is self-financing or drawing from the general revenues of the District. Direct expenses are expenses that are specifically associated with a service, program or department. The direct expenses are clearly identifiable to a particular function. Program revenues include charges to recipients for goods or services offered by the program, grants and contributions that are

Note 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)**

Government-wide Financial Statements (Con't)

restricted to meet the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District. The government-wide financial statements do not include fiduciary funds of component units that are fiduciary in nature.

Fund Financial Statements - In order to aid financial management and to demonstrate legal compliance, the District segregates transactions related to certain functions or activities in separate funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The focus of the governmental fund financial statements is on major funds. Each major fund is presented as a separate column in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. The fiduciary fund (if any) is reported by type.

B. FUND ACCOUNTING - The District's funds consist of the following:

GOVERNMENTAL FUNDS

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

General Fund - This fund should be used to account for and report all financial resources NOT accounted for and reported in another fund. The general operating fund is a major fund.

Special Revenue Fund - This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. In these statements, the special revenue fund consists of the hot lunch fund and Special Reserve Levy fund.

Capital Projects - This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments. The capital projects fund is also called the building fund, which is a major fund.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

Debt Service Fund - This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years, also should be reported in debt service funds. In these statements the debt service fund consists of the Debt Service Fund.

FIDUCIARY FUNDS

The reporting focus of fiduciary funds is on net position and changes in net position. The District's only fiduciary fund is an agency fund.

Agency Fund - The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The District's agency fund consists of the student activity fund, which accounts for the financial transactions related to the student's activity programs.

Private Purpose Trust Funds - These funds account for assets held by the School District received from private individuals used for scholarships.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement Focus

Government-Wide Financial Statements:

The government-wide financial statements use the economic resources measurement focus, as do the fiduciary fund financial statements. All assets and liabilities associated with the operation of the District are included in the statement of net position.

Fund Financial Statements:

The governmental fund financial statement use the current financial resources measurement focus. Under this measurement focus, only current assets, current liabilities and fund balances are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources and uses of current financial resources.

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

Note 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)**

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared on the accrual basis of accounting, as are the Fiduciary Funds financial statements. Under the accrual basis of accounting revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The District's governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers all revenues available if they are collectible within 60 days after year end. Expenditures are generally recorded as the related fund liability is incurred.

All revenues are susceptible to accrual.

D. OTHER ACCOUNTING POLICIES

Revenue-Exchange and Non-Exchange Transactions - Exchange transactions are transactions in which each party gives and receives essentially equal value. Under the accrual basis of accounting, revenue for exchange transactions is recorded when the exchange takes place. Under the modified accrual basis of accounting, revenue for exchange transactions is recorded when the resources are measurable and available.

Non-exchange transactions include transactions in which the District receives value without directly providing value in return. Non-exchange transactions include property taxes, grants, entitlements and donations.

Under the accrual basis of accounting, property taxes are recorded as revenue in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recorded in the fiscal year in which all eligibility requirements have been satisfied. Under the modified accrual basis of accounting, revenue from non-exchange transactions must also be available before it is recorded in the financial records of the District. Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues, and investment income.

Expenses and Expenditures - Governmental funds accounting measurement focus is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recorded in the fiscal year in which the related fund liability is incurred. Under the accrual basis of accounting, expenses are recorded when incurred.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

D. OTHER ACCOUNTING POLICIES (CON'T)

Deferred outflows and inflows of resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Board has two items that meet this criterion - a pension related deferral and contributions made to the pension plan in the current fiscal year. The statement of financial position also reports 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 and so will not be recognized as revenue until then. The Board has one item that meet this criterion - pension related deferrals.

Budgets and Budgetary Accounting - The budget for the general fund is prepared on the cash basis. The District's board follows the procedures established by North Dakota law for the budgetary process. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year. Formal budgetary integration is employed as a management control device during the year for the general fund. The school board must adopt the final budget on or before August 15. The final budget must be filed with the county auditor by August 25. The final budget was approved September 15, 2015.

The budget may be amended during the year by the Board, however, no amendment changing the taxes levied can be made after October 10. All appropriation lapse at the close of the District's fiscal year. The balance of the appropriation reverts back to each respective fund and is available for future appropriation.

Encumbrances - Encumbrances represent commitments related to unperformed contracts for goods or services. Under encumbrance accounting purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation. The District does not utilize encumbrance accounting.

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

Investments - Investments of the school district during the year ended June 30, 2016, consisted of certificates of deposits stated at cost. North Dakota state statute authorizes school districts to invest their surplus funds in:

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

D. OTHER ACCOUNTING POLICIES (CON'T)

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, instrumentality's or organizations created by an act of Congress, b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above, c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation, d) Obligations of the state.

Capital Assets - General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported as assets in the fund financial statements. All capital assets are recorded at cost (or estimated historical cost). The assets are updated for additions and retirements during the District's fiscal year. The District has established a capitalization threshold of \$5,000. Donated fixed assets are recorded at their fair market values at the date received. The District does not have any infrastructure assets. Improvements that significantly extend the useful life of the asset are also capitalized.

The District's land is capitalized but is not depreciated. All the remaining capital assets are depreciated over their estimated useful lives on the straight-line basis. The district has established the following useful lives:

Buildings and improvements	25-50 years
Machinery and equipment	5-10 years
Licensed Vehicles	8 years

Compensated Absences - Drayton Public School District No. 19 offers sick leave, emergency leave, personal leave, maternity leave, professional leave, jury duty and sabbatical leave to some or all classes of employees in varying degrees. Some of the leaves are cumulative, but must be used to be a benefit. The District does not pay for unused leave when the employee leaves.

Therefore, reasonable estimation of the resulting liability cannot be met, and there is no accrual made for compensated absences. In any circumstances, the resulting liability is considered immaterial.

Accrued Liabilities and Long-Term Obligations - All payables, accrued liabilities and long-term obligations are reported in the District's government wide financial statements. The District's governmental fund financials report only those obligations that will be paid from current financial resources.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19
NOTES TO BASIC FINANCIAL STATEMENTS
Page 7

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

D. OTHER ACCOUNTING POLICIES (CON'T)

Net Position - Net position represent the difference between assets and liabilities. Net position invested in capital assets net of debt, consists of the remaining undepreciated cost of the asset less the outstanding debt associated with the purchase or construction of the related asset. Net position is reported as restricted when external creditors, grantors, or other governmental organizations imposed specific restriction on the District. External restrictions may be imposed through state or local laws, and grant or contract provisions.

Fund Balances - In the governmental fund financial statements fund balance is reported in five classifications. Nonspendable fund balance is the amount that is not in spendable form. Restricted for capital projects is the portion of fund balance that is restricted for use on capital projects. Committed is that portion of fund balance that has been approved by the highest level of formal action of the board of education and does not lapse at year-end. The district does not have any committed fund balance this fiscal year. Assigned is the portion of fund balance that has been approved by formal action of the board of education and does lapse at year end. Unassigned is the fund balance that has not been reported in any other classification. Drayton Public School District No. 19 does not have a revenue spending policy that provides policy for programs with multiple revenue sources. The superintendent uses resources in following hierarchy bond proceeds, federal funds, state funds and local funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The District has the authority to deviate from this policy if it is in the best interest of the District. There is no stabilization amounts. The District has not set a minimum fund balance.

Interfund Activity - Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

Repayment from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund activities within the District's governmental activities and its business - type activities is eliminated in the statement of activities.

Extraordinary and Special Items - Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the school board and are either unusual in nature or infrequent in occurrence.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

D. OTHER ACCOUNTING POLICIES (CON'T)

Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Revenue recognition - property taxes - Taxes receivable consist of current and delinquent uncollected taxes at June 30, 2016. Property taxes attach as an enforceable lien on property January 1. A five percent reduction is allowed if paid by February 15. Penalty and interest are added March 15 if the first half of the taxes have not been paid. Additional penalties are added October 15, if not paid. Taxes are collected by the county and usually remitted monthly to the school district.

Property tax revenue in the governmental funds is recognized in compliance with National Council of Governmental Accounting (NCGA) Interpretation 3, "Revenue Recognition - Property Taxes". This interpretation states that property tax revenue is recorded when it becomes available. Available means when 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. Property tax revenue is recorded as revenue in the year the tax is levied in the government-wide financial statements. Property taxes are limited by state laws. All school district tax levies are in compliance with state laws.

Total Columns on Combined Statements - Total columns on the combined statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19
 NOTES TO BASIC FINANCIAL STATEMENTS
 Page 9

Note 3 CASH AND CASH EQUIVALENTS

The following is a summary of the cash balances at June 30, 2016.

	Balance per Bank Records	In Transit Items	Balance per District Records
CHECKING ACCOUNTS			
KodaBank Drayton, ND			
Private Purpose Trust Fund	\$ 2,643	\$	\$ 2,643
Activity Fund	55,878	0	55,878
Checking	<u>1,730,408</u>	<u>(196,794)</u>	<u>1,533,614</u>
Total checking accounts	<u>\$1,788,929</u>	<u>\$ (196,794)</u>	<u>\$1,592,135</u>
CERTIFICATES OF DEPOSIT AND SAVINGS ACCOUNTS			
			<u>Amount</u>
Total Certificates of deposit and savings accounts			<u>\$ 82,000</u>
Total Cash			<u>\$1,674,135</u>
Cash consists of:			
Private Purpose Trust Fund			\$ 84,643
General Fund			1,016,850
Building Fund			(32,934)
Bond Sinking Fund			418,304
Activity Fund			55,878
Special Revenue Funds			<u>131,394</u>
Total			<u>\$1,674,135</u>

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities on the possession of an outside party. 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. The District board approves and designates a list of authorized depository institutions.

Pledge of Securities by Depository - The amount of money on deposit at Drayton State Bank, Drayton, ND on June 30, 2016 was \$1,788,929. On June 30, 2016 the amount of securities Drayton State Bank, Drayton, ND had pledged as collateral along with insurance coverage for the deposits was \$2,083,047. All deposits are Category 1 with deposits insured or registered in the name of District, or securities held by the District or its agent in its' name. The pledge of securities and insurance coverage is Not less than the deposits.

Credit Risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. State statutes authorize the District to invest in (1) 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; (2) Securities sold under agree-

Note 3 CASH AND CASH EQUIVALENTS (CON'T)

ments to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above; (3) Certificates of deposit fully insured by the federal deposit insurance corporation or by the state; (4) Obligations of the state. All investments are stated at cost.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Certificates of deposit may not be purchased with maturities greater than 365 days from date of purchase.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer.

Note 4 TAXES RECEIVABLE AND DUE FROM OTHER GOVERNMENTS

Property Tax Receivable

General Fund	\$ 56,370
Building Fund	6,751
Bond Sinking Fund	15,406
Reserve	<u>1,792</u>

Total Property Tax Receivable

\$ 80,319

Due From Other Governments and Sources

General Fund	
Total Due from Local Sources	\$114,388
Total Due from State Governments	\$ 0
Total Due from Federal Governments	\$ 0

Note 5 CAPITAL ASSETS

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

	Balance Beginning of Year	Additions	Deletions	Balance End Of Year
Governmental Activities				
Land	\$ 24,550	\$	\$ 0	\$ 24,550
Buildings & improvements	5,239,306			5,239,306
Machinery & equipment	515,772	93,582	0	609,354
Vehicles	<u>395,980</u>	<u>129,400</u>	<u>44,950</u>	<u>480,430</u>
Total at Historical Cost	6,175,608	222,982	44,950	6,353,640
Less Accumulated Depreciation				
Buildings & improvements	1,153,502	108,221	0	1,261,723
Machinery & equipment	329,712	60,777	0	390,489
Vehicles	<u>192,794</u>	<u>46,401</u>	<u>44,950</u>	<u>194,245</u>
Total Accumulated Depreciation	1,676,008	215,399	44,950	1,846,457
Net Capital Assets for				
Governmental Activities	<u>\$4,499,600</u>	<u>\$ 7,583</u>	<u>\$ 0</u>	<u>\$4,507,183</u>

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19
 NOTES TO BASIC FINANCIAL STATEMENTS
 Page 11

Note 5 **CAPITAL ASSETS (CON'T)**

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

Support Services	
Operation & maintenance	\$108,221
General administration	58,729
Pupil transportation	46,401
Extracurricular	<u>2,048</u>
Total	<u>\$215,399</u>

Note 6 **PAYABLES**

Benefits payable and payroll payable consists of accruals for payroll and benefits for services received prior to June 30, 2016. The balance was \$20,828 at June 30, 2016.

Note 7 **STATEMENT OF LEASES**

The District entered into an operating lease for two copiers in January, 2013. The lease payment expended during the school year was \$7,776. Lease maturities are as follows:

June 30	Copier WC5775	Copier WC7535P
2017	\$4,567	\$3,209
2018	<u>2,664</u>	<u>1,872</u>
Total	<u>\$7,231</u>	<u>\$5,081</u>

Note 8 **DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources in the fund financial statements balance sheet 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 and include taxes receivable.

The balance of deferred inflows of resources at year end are comprised of the following:

	Deferred Outflows <u>of Resources</u>	Deferred Inflows <u>Of Resources</u>
Differences between expected and actual experience	\$493,164	\$
Net difference between projected and actual earnings or pension plan investments		124,693
Employer contributions subsequent to the measurement date	171,426	
Rounding difference within the schedule	<u>\$664,590</u>	<u>\$124,693</u>

Note 9 LONG-TERM OBLIGATION ACTIVITY

Changes in Long-Term Liabilities. During the year ended June 30, 2016, the following changes occurred in liabilities reported in the long-term liabilities - Governmental Activities:

	Balance <u>July 1</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30</u>	Due Within <u>One Year</u>
Net Pension Liability	\$2,125,582	\$630,078	\$ 0	\$2,755,660	\$ 0
Bonds Payable	2,940,000	0	140,000	2,800,000	145,000
Honeywell Capital Lease	367,778	0	15,130	352,648	16,856
Bus Master Payable	0	49,450		49,450	15,974
Total	<u>\$5,433,360</u>	<u>\$679,528</u>	<u>\$155,130</u>	<u>\$5,957,758</u>	<u>\$177,830</u>

Outstanding debt at June 30, 2016, consists of the following:

General Obligation Bonds Payable

School Building Bonds Series 2013 due in varying semi-annual installments of \$70,000 to \$195,000 through August 1, 2032. Interest is varying from .4% to 2.2%. The total amount of the Bond payable at June 30, 2016, is \$2,800,000.

Capital Lease Payable

Drayton Public School District No. 19 entered into a capital lease on October 10, 2012, for an Energy Service Agreement. The interest rate is 3.99%. The total amount of lease payable is \$352,648 at June 30, 2016.

Drayton Public School District No. 19 entered into a master capital payable on October 30, 2015, for a 2016 school bus. The interest rate is 3.10%. The total amount of lease payable is \$49,450 at June 30, 2016.

For the Fiscal Year	Bonds			Energy	Bus
<u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Capital Lease</u>	<u>Capital Lease</u>
2017	\$ 145,000	\$ 45,495	\$ 190,495	\$ 16,856	\$15,974
2018	145,000	44,625	189,625	18,693	16,479
2019	145,000	43,538	188,538	20,647	16,997
2020	150,000	42,210	192,210	22,724	0
2021	150,000	40,635	190,635	24,931	0
2022-2026	790,000	170,633	960,633	162,825	0
2027-2031	890,000	91,375	981,375	85,972	0
2032-2033	<u>385,000</u>	<u>8,525</u>	<u>393,525</u>	<u>0</u>	<u>0</u>
Total	\$2,800,000	\$487,036	\$3,287,036	\$352,648	\$49,450

Note 10 RISK MANAGEMENT

The school district is exposed to various risks to loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Note 10 RISK MANAGEMENT (CON'T)

The school district pays an annual premium to EMC Insurance Companies for its general liability, auto, and inland marine insurance coverage. The coverage is limited to losses of one million dollars per occurrence.

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

The District participates in the 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 years.

Note 11 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.

Note 11 **NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT (CON'T)**

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 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

Note 11 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT (CON'T)

reached age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

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

Tier 2

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

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

Death and Disability Benefits

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

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

Note 11 **NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT (CON'T)**

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 70 $\frac{1}{2}$. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

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

At June 30, 2016, the Employer reported a liability of \$2,629,142 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 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 July 1, 2015, the Employer's proportion was .201027 percent, which was an increase of 8.643276% from its proportion measured as of July 1, 2014.

For the year ended June 30, 2016, the Employer recognized pension expense of \$200,886. At June 30, 2016, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19
 NOTES TO BASIC FINANCIAL STATEMENTS
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Note 11 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT (CON'T)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$297,940	\$
Changes of assumptions		
Net difference between projected and actual earnings on pension plan investments		190,608
Changes in proportion and differences between employer contributions and proportionate share of contributions		
Employer contributions subsequent to the measurement date	<u>157,884</u>	
Total	<u>\$455,824</u>	<u>\$190,608</u>

\$455,824 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:

Year ended June 30:

2017	\$ 56,628
2018	56,628
2019	56,628
2020	116,452
2021	78,996
Thereafter	76,314

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

Note 11 **NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT (CON'T)**

For active and inactive members, mortality rates were based on 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 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 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

Note 11 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT (CON'T)

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:

	Current Discount		
	1% Decrease (6.75%)	Rate (7.75%)	1% Increase (8.75%)
Employer's proportionate share of the net pension liability	\$3,474,536	\$2,629,142	\$1,924,102

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued TFFR financial report. TFFR's Comprehensive Annual Financial Report (CAFR) is located at www.wa.gov/rio/sib/publications/cafr/default.htm.

Note 12 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

Summary of Significant Accounting Policies

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

Note 12 **NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM (CON'T)**

General Information about the Pension Plan

North Dakota Public Employees System (Main System)

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

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

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

Pension Benefits

Benefits are set by statute. NDPERS has no 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.

Note 12 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM (CON'T)

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 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

Note 12 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM (CON'T)

25 to 36 months of service-Greater of three percent of monthly salary or \$25

Longer than 36 months of service-Greater of four percent of monthly salary or \$25

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

At June 30, 2016, the Employer reported a liability of \$126,518 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 .018606 percent, which was a decrease of 36.76% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2016, the Employer recognized pension expense of (\$1,027). 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	\$ (620)	\$
Changes of assumptions		
Net difference between projected and actual earnings on pension plan investments		58,591
Changes in proportion and differences between employer contributions and proportionate share of contributions		
Employer contributions subsequent to the measurement date	13,542	
Total	<u>\$12,922</u>	<u>\$58,591</u>

\$12,922 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.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19
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Note 12 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM (CON'T)

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

Year ended June 30:

2017	\$ (16,513)
2018	(16,513)
2019	(16,513)
2020	(10,994)
2021	(14,910)
Thereafter	0

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 (not set back 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:

Note 12 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM (CON'T)

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 contribution 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:

	Current Discount		
	1% Decrease (7%)	Rate (8%)	1% Increase (9%)
Employer's proportionate share of the net pension liability	\$194,008	\$126,518	\$71,298

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

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19
NOTES TO BASIC FINANCIAL STATEMENTS
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Note 13 TRANSFERS

The general fund transferred \$58,971 to the school lunch fund. The transfer from the general fund to the school lunch fund was made to cover indirect cost for the current year that relate to school lunch activities. These activities include cook's payroll and related expense. The general fund transferred \$32,934 to the capital projects fund. There is \$32,934 due from the General Fund to the capital projects fund at June 30, 2016.

Note 14 FEDERAL AND STATE GRANTS

In the normal course of operations, the District receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of granting authorities, the purpose of which is to ensure compliance with conditions precedent to granting the funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material to the overall financial position of the district as of June 30, 2016.

Note 15 NONMONETARY TRANSACTIONS

The District receives food commodities from the federal government to subsidize its hot lunch program. The market value of commodities received for the year ended June 30, 2016 was \$8,272.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19
Schedules of Required Supplementary Information
Schedule of Employer's Share of Net Pension Liability
ND Teachers' Fund for Retirement
Last 10 Fiscal Years

	<u>2016</u>
1. Employer's proportion of the net pension liability (asset)	.201027%
2. Employer's proportionate share of the net pension liability (asset)	\$2,629,142
3. Employer's covered-employee payroll	\$1,236,526
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	212.62%
5. Plan fiduciary net position as a percentage of the total pension liability	62.1%

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

	<u>2016</u>
Statutorily required contribution	\$ 157,650
Contributions in relation to the statutorily required contribution	\$ (157,650)
Contribution deficiency (excess)	\$ 0.00
Employer's covered-employee payroll	\$1,236,526
Contributions as a percentage of covered-employee payroll	12.75%

Notes to Required Supplementary Information
for the Year Ended June 30, 2016

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.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19
Schedules of Required Supplementary Information
Schedule of Employer's Share of Net Pension Liability
ND Public Employees Retirement System
Last 10 Fiscal Years

	<u>2016</u>
Employer's proportion of the net pension liability (asset)	.018606%
Employer's proportionate share of the net pension liability (asset)	\$126,518
Employer's covered-employee payroll	\$165,753
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	76.3292%
Plan fiduciary net position as a percentage of the total pension liability	77.15%

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

	<u>2016</u>
Statutorily required contribution	\$ 12,591
Contributions in relation to the statutorily required contribution	\$(14,167)
Contribution deficiency (excess)	\$ (1,576)
Employer's covered-employee payroll	\$165,753
Contributions as a percentage of covered-employee payroll	7.60%

Notes to Required Supplementary Information
for the Year Ended June 30, 2016

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.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts <u>Original</u>	Budgeted Amounts <u>Final</u>	General Fund <u>Actual</u>
Revenues:			
Property taxes	\$ 944,304	\$ 944,304	\$ 930,150
Other local sources	38,480	38,480	61,989
State sources	2,133,659	2,133,659	2,069,046
Federal sources	86,256	86,256	91,653
Total revenues	<u>3,202,699</u>	<u>3,202,699</u>	<u>3,152,838</u>
Expenditures:			
Current			
Instruction:			
Regular	1,302,569	1,302,569	1,086,048
Special education	704,872	704,872	670,970
Vocational education	30,790	30,790	28,411
Total instruction	<u>2,038,231</u>	<u>2,038,231</u>	<u>1,785,429</u>
Support services:			
Pupil services	65,364	65,364	35,443
Instructional staff services	108,443	108,443	165,101
General administrative services	382,797	382,797	352,449
School administrative services	124,020	124,020	99,267
Business services	600	600	231
Operations & maintenance	231,190	231,190	196,993
Pupil transportation services	128,028	128,028	92,974
Extracurricular	151,260	151,260	115,022
Debt Service			
Capital outlays	119,047	119,047	203,790
Total support services	<u>1,310,749</u>	<u>1,310,749</u>	<u>1,261,270</u>
Total expenditures	<u>3,348,980</u>	<u>3,348,980</u>	<u>3,046,699</u>
Excess (deficiency) of revenues over (under) expenditures	(146,281)	(146,281)	106,139
OTHER FINANCING SOURCES (USES)			
Loan Proceeds issued	0	0	49,450
Transfer to other funds	(51,937)	(51,937)	(91,905)
Total other financing sources (uses)	<u>(51,937)</u>	<u>(51,937)</u>	<u>(42,455)</u>
Net Change in Fund Balances	<u>(198,218)</u>	<u>(198,218)</u>	<u>63,684</u>
Fund balance			
Beginning of year	<u>1,013,792</u>	<u>1,013,792</u>	<u>1,013,792</u>
End of year	<u>\$ 815,574</u>	<u>\$ 815,574</u>	<u>\$1,077,476</u>

See the accompanying notes to the basic financial statements.

Variances Positive
(Negative) Original
To Actual Results

\$ (14,154)
23,509
(64,613)
5,397
(49,861)

Variances Positive
(Negative) Final
To Actual Results

\$ (14,154)
23,509
(64,613)
5,397
(49,861)

216,521
33,902
2,379
252,802

216,521
33,902
2,379
252,802

29,921
(56,658)
30,348
24,753
369
34,197
35,054
36,238

29,921
(56,658)
30,348
24,753
369
34,197
35,054
36,238

(84,743)
49,479
302,281

(84,743)
49,479
302,281

252,420

252,420

49,450
(39,968)
9,482

49,450
(39,968)
9,482

261,902

261,902

0

0

\$ 261,902

\$ 261,902

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19
NOTES TO THE BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2016

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

Based upon available financial information and requests by the governing 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 August 15. The taxes levied must be certified to the county auditor by August 25. The governing board may amend its tax levy and budget, 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 LEGAL COMPLIANCE - BUDGETS

Budget Amendments

The governing board had no amendments to the school district's budget for the year ending June 30, 2016:

	<u>Original Budget</u>	<u>Amendments</u>	<u>Amended Budget</u>
General Fund-Appropriations	3,400,917	0	3,400,917
General Fund-Estimated Revenues	3,202,699	0	3,202,699



V. NELSON CPA LTD.

516 Main Avenue
Oakes, ND 58474
(701)742-3375
fax(701)742-3376

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

To the President and Board
Drayton Public School District No. 19
Drayton, 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, each major fund, and the aggregate remaining fund information of Drayton Public School District No. 19, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Drayton Public School District No. 19'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 Drayton Public School District No. 19'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 Drayton Public School District No. 19's internal control. Accordingly, we do not express an opinion on the effectiveness of Drayton Public School District No. 19'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, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a

reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses.

SEGREGATION OF DUTIES

Condition - Drayton Public School District No. 19 has one business manager 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 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 risks of misstatement of the District's financial condition.

Recommendation - Due to the size of the District, it is not feasible to obtain proper separation of duties and no recommendation will be made.

Client Response - The District has employed a second individual who will assume portions of the financial operations, thereby providing a measure of separation with the fiscal controls. Superintendent codes all general fund, building fund, and food service fund bills prior to payment, except payroll associated bills.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described below to be significant deficiencies.

CONTROLS OVER THE FINANCIAL REPORTING PROCESS

Condition - The business manager has full controls over the computer's financial reporting process.

Criteria - For effective internal controls over financial reporting you should split up the controls.

Effect - She has full controls to initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Recommendation - The business manager having full controls over the computer's financial reporting process is common in an entity this size. The Management and the Board need to continually monitor the financial reporting process, especially since there is only one business manager.

Client Response - Due to the size of the District, it is not feasible to split up the controls. The Board will continue to monitor this condition. The superintendent will also continue to monitor the status of funds in the District, providing regular monthly updates to the Board. The Business Manager and Building Secretary will rectify the other program statements in November and May of each year. The superintendent maintains a monthly check on revenues and expenses, providing regular monthly updates to the Board which include ending balance projections.

PREPARING FINANCIAL STATEMENTS - DESIGN DEFICIENCY

Condition - Management has not identified risks to the preparation of reliable financial statements.

Criteria - The framework for effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the District's audited financial statements and then should determine how those identified risks should be managed.

Effect - Failure to design effective controls over the preparation of the financial statements would not prevent or detect material misstatements, including footnote disclosure.

Recommendation - The Board and management should document their identification of risks to the preparation of financial statements.

Client Response - Due to the size of the District, the design of the preparation of financial statements is not changing. The board will continue to work towards identifying the risks.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Drayton Public School District No. 19'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*.

We noted certain matters that we reported to management of Drayton Public School District No. 19, in a separate letter dated November 1, 2016.

Drayton Public School District No. 19's Response to Findings

Drayton Public School District No. 19's response to the findings identified in our audit is described previously. Drayton Public School District No. 19's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no 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.

V. Nelson CPA, Ltd.

V. Nelson CPA, Ltd.
Oakes, North Dakota
November 1, 2016



V. NELSON CPA LTD.

516 Main Avenue
Oakes, ND 58474
(701)742-3375
fax(701)742-3376

November 1, 2016

To the Board of Education
Drayton Public School District No. 19
Drayton, North Dakota

MANAGEMENT LETTER

During completion of our audit of the Drayton Public School District No. 19 for the year ended June 30, 2016, certain observations were made of various policies of the district.

The matters included herein are presented as a matter of record and for your further consideration. This letter is presented to identify areas which should be subjected to your review. You will determine the final course of action to pursue.

1. Accrual Accounting. Generally Accepted Accounting Principles (GAAP) for governmental units requires the modified accrual basis of accounting for all governmental funds. Revenues should be recognized when received, except year-end adjustments are made for material revenues determined to be both measurable and available as net current assets. We recommend the school district continue recording revenue and expenditure adjustments at year end, if necessary, to ensure that all external reporting is based on a modified accrual basis of accounting. We are available to help with the adjustments.

2. Accounting Personnel. The school district has one business manager. She handles the accounting fund areas (i.e. General, Building, Debt service, Special revenue and activity funds). She collect monies, issue receipts, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledgers and prepare respective financial reports and statements. Due to the size of the entity, it is not feasible to obtain any more separation of duties and therefore the degree of effective internal controls is severely limited. The superintendent should review her work.

3. Data Storage. The school stores all its financial records on sight. The school should consider storing some financial records off sight, in case of a disaster.

4. Audit Report Approval. The board minutes should state the approval of the audit report. The Auditor was approved.

This letter is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this letter which, upon acceptance by the governing board, is a matter of public record.

V. Nelson CPA, LTD.

Versella Nelson CPA

Versella Nelson, CPA



V. NELSON CPA LTD.

516 Main Avenue
Oakes, ND 58474
(701)742-3375
fax(701)742-3376

Communication with Those Charged with Governance
at the Conclusion of the Audit

November 1, 2016

To the Board of Education
Drayton Public School District No. 19
Drayton, North Dakota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Drayton Public School District No. 19 for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 15, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Drayton Public School District No. 19 are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ending June 30, 2016. We noted no transactions entered into by Drayton Public School District No. 19 during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The financial statements disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 1, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Drayton Public School District No. 19's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Drayton Public School District No. 19's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to budgetary comparison information, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of Members of the Board of Education and management of Drayton Public School District No. 19 and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this letter which, upon acceptance by the governing board, is a matter of public record.

Very truly yours,

V. Nelson CPA, Ltd.

V. Nelson CPA, Ltd.
Oakes, North Dakota