

AUDIT REPORT

ELLENDALE PUBLIC SCHOOL DISTRICT NO. 40
Ellendale, North Dakota

For the Year Ended June 30, 2015

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

ELLENDALE PUBLIC SCHOOL DISTRICT NO. 40
Ellendale, North Dakota

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ELLENDALE PUBLIC SCHOOL DISTRICT NO. 40
Ellendale, North Dakota

SCHOOL DISTRICT OFFICIALS

Cay Durheim	Board President
Scott Wertz	Vice President
Charlene Kinzler	Board Member
Kent Schimke	Board Member
Michele Thorpe	Board Member
Jeff Fastnacht	Administrator
Lana Norton	Business Manager

Rath & Mehrer

Certified Public Accountants

Specializing in Governmental Auditing

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Jayson Rath, CPA
Ken Mehrer, CPA

425 North Fifth Street
Bismarck, ND 58501

INDEPENDENT AUDITOR'S REPORT

Governing Board
Ellendale Public School District No. 40
Ellendale, 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 the Ellendale Public School District No. 40, Ellendale, North Dakota, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the school 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 judgement, 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 school district'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 school district'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 the Ellendale Public School District No. 40, Ellendale, North Dakota, as of June 30, 2015, 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 on pages 4 through 9, budgeting comparison information on pages 34 through 35 and the schedules of employer's share of net pension liability on pages 36 through 37 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 the school district's basic financial statements. The combining nonmajor fund financial statements and the schedule of fund activity arising from cash transactions are presented for additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of fund activity arising from cash transactions 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 nonmajor fund financial statements and the schedule of fund activity arising from cash transactions are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2015 on our consideration of the school district's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the school district's internal control over financial reporting and compliance.

Rath and Mehrer

Rath and Mehrer, P.C.

Bismarck, North Dakota

July 31, 2015

ELLENDALE PUBLIC SCHOOL DISTRICT NO. 40

Management's Discussion and Analysis

June 30, 2015

The Management's Discussion and Analysis (MD&A) of the Ellendale Public School District's financial performance provides an overall review of the school district's financial activities for the fiscal year ended June 30, 2015. The intent of the MD&A is to look at the school district's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

The MD&A is a new element of the Required Supplementary Information specified in the Government Accounting Standards Board's (GASB) Statement No. 34 *"Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments"*. Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended June 30, 2015 are as follows:

- * Net position of the school district increased \$283,213 as a result of the current year's operations.
- * Governmental net position as of the end of the fiscal year totaled \$1,987,106.
- * Total revenues from all sources were \$4,848,743.
- * Total expenses were \$4,565,530.
- * The school district's general fund had \$4,103,558 in total revenues and \$4,297,738 in total expenditures. Overall, the general fund balance decreased by \$194,180 for the year ended June 30, 2015.

USING THIS ANNUAL REPORT

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand the school district as a financial whole. The statements then proceed to provide an increasingly detailed look at financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole school district, presenting both an aggregate view of the school district's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the school district's general fund and sinking and interest fund with all other governmental funds presented in total in one column.

REPORTING ON THE SCHOOL DISTRICT AS A WHOLE

Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the school district to provide programs and activities and attempt to answer the question "How did the school district do financially during the year ended June 30, 2015?"

The Statement of Net Position presents information on all the district's assets and liabilities, with the difference between the two 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 school district is improving or deteriorating.

The Statement of Activities presents information on how the school district's net position changed during the fiscal year. This statement is presented using the accrual basis of accounting, which means that all changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused sick leave and/or vacation leave).

These two statements report the school district's net position and changes in that position. This change in net position is important because it tells the reader whether, for the school district as a whole, the financial position of the school district has improved or deteriorated. The causes of this change may be the result of many factors, some financial and some not.

In the Statement of Net Position and the Statement of Activities, the school district reports governmental activities. Governmental activities are the activities where most of the school district's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of buildings and grounds, student transportation and co-curricular activities.

REPORTING ON THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Balance Sheet - Governmental Funds

The school district uses separate funds to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basis financial statements allow the school district to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the school district's major funds. Using the criteria established by GASB Statement No. 34, the school district's general fund and sinking and interest fund are considered "major funds".

The school district's other funds, which are used to account for a multitude of financial transactions, are summarized under the heading "Other Governmental Funds".

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

Table I provides a summary of the school district's net position as of June 30, 2015. A comparative analysis of district-wide data is presented for both current and prior year.

As indicated in the financial highlights above, the school district's net position increased by \$283,213 for the year ended June 30, 2015. Changes in net position may serve over time as a useful indicator of the school district's financial position.

The school district's net position of \$1,987,106 is segregated into three separate categories. Net investment in capital assets totals \$3,269,067. It should be noted that these assets are not available for future spending. The restricted component of net position is \$679,455 of the school district's net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position is (\$1,961,416) which includes (\$3,461,708) relating to the reporting of it's share of the unfunded liability for the North Dakota Teachers Fund for Retirement and the North Dakota Public Employees Retirement System as required by GASB Statement No. 68. The net amount of \$1,500,292 is available to meet the school district's ongoing obligations.

Table I
Net Position
As of June 30, 2015
(With comparative totals for June 30, 2014)

	2015	2014
<u>Assets</u>		
Current Assets	2,205,027	2,487,463
Capital Assets (net of accumulated depreciation)	6,754,691	6,782,400
Total Assets	8,959,718	9,269,863
Deferred Outflows of Resources	280,944	209,167
<u>Liabilities</u>		
Current Liabilities	382,687	556,436
Long-Term Liabilities	3,128,217	3,513,506
Net Pension Liability	3,341,654	3,705,195
Total Liabilities	6,852,558	7,775,138
Deferred Inflows of Resources	400,998	
<u>Net Position</u>		
Net Investment in Capital Assets	3,269,067	2,922,826
Restricted	679,455	721,250
Unrestricted	(1,961,416)	(1,940,184)
Total Net Position	1,987,106	1,703,892
	=====	=====

Table II shows the changes in net position for the fiscal year ended June 30, 2015. A comparative analysis of district-wide data is presented for both current and prior year.

Table II
Changes in Net Position
As of June 30, 2015
(With comparative totals for June 30, 2014)

	2015	2014
Revenues		
<u>Program Revenues:</u>		
Charges for Services	162,382	141,539
Operating Grants and Contributions	531,368	488,761
<u>General Revenues:</u>		
Property Taxes	1,595,923	1,550,476
Other Taxes	14,195	14,195
State Aid - Unrestricted	2,516,844	2,612,000
Interest Earnings and Other Revenue	28,029	20,820
Total Revenues	4,848,743	4,827,791
Expenses		
Regular Instruction	1,965,284	1,872,779
Federal Programs	187,394	181,865
Special Education	65,517	42,852
Vocational Education	183,231	168,893
District Wide Services	204,016	242,238
Administration	355,105	323,207
Operations and Maintenance	700,592	444,524
Student Transportation	329,417	354,279
Student Activities	149,883	139,437
Tuition and Assessments	87,900	225,883
Food Services	223,990	191,584
Interest on Long-Term Debt	9,388	31,728
Unallocated Depreciation	103,813	103,813
Total Expenses	4,565,530	4,323,083
Net Change in Position	283,213	504,708
	=====	=====

Property taxes constituted 33%, unrestricted state aid 52%, operating grants and contributions 11% and charges for services made up 3% of the total revenues of governmental activities of the school district for the fiscal year ended June 30, 2015.

Regular instruction constituted 43%, federal programs 4% and vocational education 4% of total expenses for governmental activities during the fiscal year ended June 30, 2015.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table III 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 III
Total and Net Cost of Services
As of June 30, 2015

	Total Cost Year Ended <u>June 30, 2015</u>	Net Cost Year Ended <u>June 30, 2015</u>
Regular Instruction	1,965,284	1,950,284
Federal Programs	187,394	(1,703)
Special Education	65,517	7,554
Vocational Education	183,231	138,735
District Wide Services	204,016	204,016
Administration	355,105	355,105
Operations and Maintenance	700,592	700,592
Student Transportation	329,417	154,854
Student Activities	149,883	149,883
Tuition and Assessments	87,900	87,900
Food Services	223,990	11,357
Interest on Long-Term Debt	9,388	9,388
Unallocated Depreciation	103,813	103,813
Total Expenses	<u>4,565,530</u> =====	<u>3,871,779</u> =====

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The purpose of the school district's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the school district's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified accrual basis of accounting. The school district's governmental funds had total revenue of \$4,671,006 and expenditures of \$4,951,402 for the year ended June 30, 2015. As of June 30, 2015, the unassigned fund balance of the school district's general fund was \$1,268,750.

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal year 2015, the school district amended the general fund budget. The gross effect of the amendments was to increase estimated revenues by \$10,836 and appropriations by \$32,244.

Actual revenue for the year ended June 30, 2015 was \$81,501 less than budgeted. Actual expenditures for the year ended June 30, 2015 were under budget by \$405,577.

CAPITAL ASSETS

As of June 30, 2015, the school district had \$6,754,691 invested in capital assets. Table IV shows the balances as of June 30, 2015.

Table IV
Capital Assets
(Net of Accumulated Depreciation)
As of June 30, 2015
(With comparative totals for June 30, 2014)

	<u>2015</u>	<u>2014</u>
Buildings	6,430,210	6,534,023
Vehicles	267,721	172,697
Computer Equipment	56,760	75,680
Total (net of depreciation)	<u>6,754,691</u> =====	<u>6,782,400</u> =====

This total represents a decrease of \$27,709 in capital assets from July 1, 2014. For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 6 to the audited financial statements which follow this analysis.

DEBT ADMINISTRATION

As of June 30, 2015, the school district had \$3,509,692 in outstanding debt of which \$381,474 was due within one year.

During fiscal year 2015 the school district issued no new long-term debt obligations.

For a detailed breakdown of the long-term debt, readers are referred to Note 9 to the audited financial statements which follow this analysis.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our parents, taxpayers and creditors with a general overview of the school district's finances and to show the school district's accountability for the money it receives to provide the best possible education to all students enrolled in the Ellendale Public School. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Lana Norton, Business Manager, Ellendale Public School, Ellendale, ND 58436.

ELLENDALE PUBLIC SCHOOL DISTRICT NO. 40
Ellendale, North Dakota

Statement of Net Position
June 30, 2015

	Governmental Activities
<hr/>	
<u>ASSETS:</u>	
Cash and Investments	1,750,382.90
Taxes Receivable	351,420.58
Due from County Treasurer	46,180.57
Due from State Government	57,042.64
Capital Assets (net of accumulated depreciation):	
Buildings	6,430,210.00
Vehicles	267,721.00
Computer Equipment	56,760.00
Total Capital Assets	<hr/> 6,754,691.00
Total Assets	<hr/> 8,959,717.69
<hr/>	
<u>DEFERRED OUTFLOWS OF RESOURCES:</u>	
Changes in Resources Related to Pensions	280,944.00
<hr/>	
<u>LIABILITIES:</u>	
Interest Payable	1,212.50
Long-Term Liabilities:	
Due Within One Year:	
Bank Loan Payable	23,500.75
G.O. School Building Bonds Payable	265,000.00
G.O. School Construction Loan Payable	72,973.71
QZAB Bonds Payable	20,000.00
Due After One Year:	
Bank Loan Payable	24,149.66
G.O. School Building Bonds Payable	3,040,000.00
QZAB Bonds Payable	40,000.00
Compensated Absences Payable	24,067.50
Net Pension Liability	3,341,654.00
Total Liabilities	<hr/> 6,852,558.12
<hr/>	
<u>DEFERRED INFLOWS OF RESOURCES:</u>	
Changes in Resources Related to Pensions	400,998.00
<hr/>	
<u>NET POSITION:</u>	
Net Investment in Capital Assets	3,269,066.88
Restricted for:	
Special Purposes	44,345.70
Food Service	83,979.14
Debt Service	423,123.79
Capital Projects	128,006.50
Unrestricted	(1,961,416.44)
Total Net Position	<hr/> 1,987,105.57 =====

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

ELLENDALE PUBLIC SCHOOL DISTRICT NO. 40
Ellendale, North Dakota

Statement of Activities
For the Year Ended June 30, 2015

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
Regular Instruction	1,965,284.07	3,330.00	11,670.10	(1,950,283.97)
Federal Programs	187,393.51		189,096.01	1,702.50
Special Education	65,517.27	57,963.10		(7,554.17)
Vocational Education	183,230.53		44,495.46	(138,735.07)
District Wide Services	204,015.66			(204,015.66)
Administration	355,104.55			(355,104.55)
Operations and Maintenance	700,592.33			(700,592.33)
Student Transportation	329,417.31		174,562.83	(154,854.48)
Student Activities	149,883.17			(149,883.17)
Tuition and Assessments	87,900.04			(87,900.04)
Food Services	223,990.26	101,089.11	111,544.06	(11,357.09)
Interest on Long-Term Debt	9,388.44			(9,388.44)
Unallocated Depreciation	103,813.00			(103,813.00)
 Total Governmental Activities	 4,565,530.14	 162,382.21	 531,368.46	 (3,871,779.47)
=====				
<u>General Revenues:</u>				
Taxes:				
Property taxes; levied for general purposes				1,209,801.55
Property taxes; levied for debt service				334,074.56
Property taxes; levied for building purposes				52,047.20
Telecommunications taxes				14,195.20
State aid - not restricted to specific program				2,516,844.42
Earnings on investments and other revenue				28,029.24
Total General Revenues				4,154,992.17
Change in Net Position				283,212.70
Net Position - July 1				5,199,920.87
Prior Period Adjustment, See Note 12				(3,496,028.00)
Net Position - July 1, as Restated				1,703,892.87
Net Position - June 30				1,987,105.57
=====				

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

ELLENDALE PUBLIC SCHOOL DISTRICT NO. 40
Ellendale, North Dakota

Balance Sheet
Governmental Funds
June 30, 2015

	Major Funds			
	General	Sinking and Interest	Other Governmental Funds	Total Governmental Funds
<u>ASSETS:</u>				
Cash and Investments	1,176,697.00	330,147.16	243,538.74	1,750,382.90
Taxes Receivable	256,671.92	83,469.59	11,279.07	351,420.58
Due from County Treasurer	35,010.00	9,657.04	1,513.53	46,180.57
Due from State Government	57,042.64			57,042.64
 Total Assets	 1,525,421.56	 423,273.79	 256,331.34	 2,205,026.69
<u>DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>				
<u>Deferred Inflows of Resources:</u>				
Unavailable Revenue	256,671.92	83,469.59	11,279.07	351,420.58
 <u>Fund Balances:</u>				
Restricted for:				
Special Purposes			44,345.70	44,345.70
Food Service			83,979.14	83,979.14
Debt Service		339,804.20		339,804.20
Capital Projects			116,727.43	116,727.43
Unassigned	1,268,749.64			1,268,749.64
 Total Fund Balances	 1,268,749.64	 339,804.20	 245,052.27	 1,853,606.11
 Total Deferred Inflows of Resources and Fund Balances	 1,525,421.56	 423,273.79	 256,331.34	 2,205,026.69

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

ELLENDALE PUBLIC SCHOOL DISTRICT NO. 40
Ellendale, North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position
For the Year Ended June 30, 2015

Total Fund Balances for Governmental Funds		1,853,606.11
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 are not reported in the governmental funds.		
Cost of Capital Assets	8,856,359.00	
Less Accumulated Depreciation	(2,101,668.00)	
Net Capital Assets		6,754,691.00
Property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as unavailable revenue in the funds.		
		351,420.58
The deferred outflows and inflows of resources reported on the statement of net position are the result of changes in resources related to pensions and do not affect current financial resources.		
Total Deferred Outflows of Resources	280,944.00	
Total Deferred Inflows of Resources	(400,998.00)	
Net Deferred Outflows/Inflows of Resources		(120,054.00)
Long-term liabilities applicable to the school district's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities -both current and long-term- are reported in the statement of net position. Balances at June 30, 2015 are:		
Bank Loan Payable	(47,650.41)	
General Obligation Bonds Payable	(3,305,000.00)	
General Obligation School Construction Loan Payable	(72,973.71)	
QZAB Bonds Payable	(60,000.00)	
Compensated Absences Payable	(24,067.50)	
Interest Payable	(1,212.50)	
Net Pension Liability	(3,341,654.00)	
Total Long-Term Liabilities		(6,852,558.12)
Total Net Position of Governmental Activities		1,987,105.57

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

ELLENDALE PUBLIC SCHOOL DISTRICT NO. 40
Ellendale, North Dakota

Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds
For the Year Ended June 30, 2015

	Major Funds			
	General	Sinking and Interest	Other Governmental Funds	Total Governmental Funds
Revenues:				
Local Sources	1,108,925.83	307,092.82	148,811.16	1,564,829.81
State Sources	2,740,198.37		2,303.00	2,742,501.37
Federal Sources	196,470.45		109,241.06	305,711.51
Other Sources	57,963.10			57,963.10
Total Revenues	4,103,557.75	307,092.82	260,355.22	4,671,005.79
Expenditures:				
Current:				
Regular Instruction	2,003,474.07			2,003,474.07
Federal Programs	187,393.51			187,393.51
Special Education	65,517.27			65,517.27
Vocational Education	183,230.53			183,230.53
District Wide Services	185,095.66			185,095.66
Administration	355,104.55			355,104.55
Operations and Maintenance	654,393.16		46,199.17	700,592.33
Student Transportation	275,835.31			275,835.31
Student Activities	139,045.17			139,045.17
Tuition and Assessments	87,900.04			87,900.04
Food Services	304.90		223,685.36	223,990.26
Capital Outlay	115,444.00		44,000.00	159,444.00
Debt Service:				
Principal	42,727.67	331,221.65		373,949.32
Interest and Service Charges	2,272.33	8,557.21		10,829.54
Total Expenditures	4,297,738.17	339,778.86	313,884.53	4,951,401.56
Net Change in Fund Balances	(194,180.42)	(32,686.04)	(53,529.31)	(280,395.77)
Fund Balance - July 1	1,462,930.06	372,490.24	298,581.58	2,134,001.88
Fund Balance - June 30	1,268,749.64	339,804.20	245,052.27	1,853,606.11

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

ELLENDALE PUBLIC SCHOOL DISTRICT NO. 40
Ellendale, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2015

Net Change in Fund Balances - Total Governmental Funds	(280,395.77)
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The change in net position reported for governmental activities in the statement of 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.

Current Year Capital Outlay	159,444.00	
Current Year Depreciation Expense	(187,153.00)	(27,709.00)

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 repayment of debt exceeded debt proceeds.

Debt Proceeds	0.00	
Repayment of Debt	373,949.32	373,949.32

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

Net Decrease in Compensated Absences	3,870.00	
Net Decrease in Interest Payable	1,441.10	
Net Decrease to Pension Expense	34,320.00	39,631.10

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures.

Net Increase in Taxes Receivable	177,737.05
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Change in Net Position of Governmental Activities	283,212.70

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

ELLENDALE PUBLIC SCHOOL DISTRICT NO. 40
Ellendale, North Dakota

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015

	Agency Funds
<u>Assets:</u>	
Cash and Investments	225,820.18
<u>Liabilities:</u>	
Due to Student Activities Groups	113,076.94
Due to Other Educational Organizations	17,700.81
Due to Employees	95,042.43
Total Liabilities	225,820.18
<u>Net Position:</u>	
Net Position	0.00
	=====

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

ELLENDALE PUBLIC SCHOOL DISTRICT NO. 40
Ellendale, North Dakota

Notes to the Financial Statements
June 30, 2015

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Ellendale Public School District No. 40 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The accompanying financial statements present the activities of the school district. The school district has considered all potential component units for which the school district is financially accountable and other organizations for which the nature and significance of their relationships with the school district are such that exclusion would cause the school district's financial statements to be misleading or incomplete. The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the school district to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the school district.

Based on these criteria, there are no component units to be included within the Ellendale Public School District No. 40 as a reporting entity.

B. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities display information about the primary government, Ellendale Public School District No. 40. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

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

Fund Financial Statements: The fund financial statements provide information about the school district's funds including its fiduciary funds. Separate statements for each fund category - *governmental* and *fiduciary* - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The school district reports the following major governmental funds:

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

Sinking and Interest Fund. This fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

The school district reports the following fund type:

Agency Funds. These funds account for assets held by the school district in a custodial capacity as an agent on behalf of others. The school district's agency funds are used to account for various deposits of the student activity funds, other educational organizations and district employees.

C. Measurement Focus, Basis of Accounting
and Financial Statement Presentation

Government-wide and Fiduciary Fund Financial Statements: The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. These financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the school district gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The school district considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Cash and Investments

Cash includes amounts in demand deposits and money market accounts.

Investments consist of certificates of deposit stated at cost.

E. Capital Assets

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

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

Buildings	50 to 75 years
Vehicles	8 years
Computer Equipment	5 years

F. Compensated Absences

Vested or accumulated sick leave is reported in the government-wide statement of net position. Compensation for unused sick leave will be granted to all certified employees upon separation from the district. The district's personnel policy requires a payout of \$10 per day for those employees with less than 10 years of service and a payout of \$20 per day for those exceeding 10 years of service with a maximum of 90 days accumulated.

Vested or accumulated vacation leave is not reported in the government-wide statement of net position as it is considered immaterial.

G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

H. Pensions

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

I. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the school district is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

Nonspendable - Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash such as inventories or prepaid expenses) or (b) legally or contractually required to be maintained intact (i.e., endowment funds).

Restricted - Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the school district or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments (i.e., funds restricted by state statute, unspent bond proceeds, grants earned but not spent, debt covenants or taxes raised for a specific purpose).

Committed - Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the school board through the adoption of a resolution. The school board also may modify or rescind the commitment.

Assigned - Fund balances are reported as assigned when amounts are constrained by the school district's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The school district reports positive unassigned fund balance only in the general fund. Negative fund balances may be reported in all funds.

Flow Assumptions - When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the school district's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the school district's policy to use fund balance in the following order:

- * Committed
- * Assigned
- * Unassigned

Net Position - Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the school district has not spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

J. Interfund Transactions

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

All other interfund transactions, except reimbursements, are reported as transfers.

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

K. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

Note 2 DEPOSITS AND INVESTMENTS

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

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

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

At June 30, 2015 the school district's carrying amount of deposits was \$1,976,203 and the bank balance was \$2,460,050. Of the bank balance, \$530,000 was covered by Federal Depository Insurance. The remaining balance of \$1,930,050 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

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

- (1) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities or organizations created by an act of Congress.
- (2) 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.
- (3) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (4) Obligations of the State.

At June 30, 2015 the school district held certificates of deposit in the amount of \$77,000, which are all considered deposits.

Concentration of Credit Risk

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

Note 3 TAXES RECEIVABLE

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

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

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

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the discount on the property taxes.

Note 4 DUE FROM COUNTY TREASURER

The amount due from county treasurer consists of the cash on hand for taxes collected but not remitted to the school district at June 30.

Note 5 DUE FROM STATE GOVERNMENT

The amount due from state government consists of reimbursements due for expenses in the operation of various school programs. This amount consists of a mix of state and federal dollars.

Note 6 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2015:

	Balance July 1	Increases	Decreases	Balance June 30
Governmental Activities:				
Capital assets being depreciated:				
Buildings	8,082,315			8,082,315
Vehicles	552,900	159,444	123,000	589,344
Computer Equipment	184,700			184,700
Total	8,819,915	159,444	123,000	8,856,359
Less accumulated depreciation for:				
Buildings	1,548,292	103,813		1,652,105
Vehicles	380,203	64,420	123,000	321,623
Computer Equipment	109,020	18,920		127,940
Total	2,037,515	187,153	123,000	2,101,668
Governmental Activities Capital Assets, Net	6,782,400	(27,709)	-0-	6,754,691
	=====	=====	=====	=====

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

District Wide Services	18,920.00
Student Transportation	53,582.00
Student Activity	10,838.00
Unallocated Depreciation	103,813.00
Total Depreciation Expense	187,153.00
	=====

Note 7 UNAVAILABLE REVENUE

Unavailable revenue on the fund financial statements consists 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.

Note 8 INTEREST PAYABLE

Interest payable consists of interest on long-term liabilities accrued to June 30, 2015. At the fund level, this amount was due at June 30, but was paid subsequent to that date.

Note 9 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended June 30, 2015, the following changes occurred in liabilities reported in the long-term liabilities - Governmental Activities:

	Balance July 1	Increases	Decreases	Balance June 30	Due Within One Year
Bank Loan	70,378		22,728	47,650	23,501
Gen. Obligation					
Bonds	3,565,000		260,000	3,305,000	265,000
State School					
Construction Loan	144,195		71,221	72,974	72,974
QZAB Bonds	80,000		20,000	60,000	20,000
Compensated					
Absences *	27,938		3,870	24,068	
Total	3,887,511	-0-	377,819	3,509,692	381,475
	=====	=====	=====	=====	=====

* The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of increases and decreases.

Outstanding debt at June 30, 2015 consists of the following:

General Obligation Debt. General obligation debt is a direct obligation and pledges the full faith and credit of the government.

Bank Loan Payable. The school district has entered into a bank loan agreement to provide funds for the purchase of computer equipment.

\$94,600.00 Bank Loan Payable with Starion
Financial due in annual installments of
\$25,000.00 through October 15, 2015 and one
payment of \$24,963.50 on October 15, 2016;
interest is at 3.15%.

47,650.41
=====

The annual requirements to amortize the outstanding bank loan payable are as follows:

Year Ending June 30	Principal	Interest
2016	23,500.75	1,499.25
2017	24,149.66	813.84
Total	47,650.41	2,313.09
	=====	=====

Bonds Payable. The school district has issued general obligation bonds to provide funds for the construction and renovation of major capital facilities.

\$4,050,000 General Obligation School Building Bonds of 2010, due in annual installments of \$265,000 to \$340,000 through July 1, 2025; interest is at 0%. 3,305,000.00

\$1,170,000 State School Construction Loan of 1996, due in final installment of \$74,768.86 on June 1, 2016; payments include interest at 2.46%. 72,973.71

\$200,000 Qualified Zone Academy Bonds of 2007, due in annual installments of \$20,000 through March 15, 2018; interest is at 0%. 60,000.00

Total General Obligation Debt 3,437,973.71
=====

The annual requirements to amortize the outstanding general obligation bond debt are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	357,973.71	1,795.15
2017	360,000.00	
2018	360,000.00	
2019	340,000.00	
2020	340,000.00	
2021-2025	1,680,000.00	
Total	3,437,973.71	1,795.15
	=====	=====

Note 10 RISK MANAGEMENT

The Ellendale Public School District No. 40 is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The school district pays an annual premium to NDIRF for its general liability, automobile and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and \$1,000,000 for automobile.

The school district also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The school district pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement 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 \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the school district with a blanket fidelity bond coverage in the amount of \$675,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The school district has worker's compensation with the Department of Workforce Safety and Insurance; and purchases commercial insurance for employee health and accident insurance.

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

Note 11 PENSION PLANS

1. North Dakota Teachers Fund for Retirement

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

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

Responsibility for administration of the TFFR benefits program is assigned to a Board comprised of seven members. The Board consists of the State Treasurer, the Superintendent of Public Instruction and five members appointed by the Governor.

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.

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

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

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 for all three categories are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the 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.

Death and Disability Benefits

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

An active member is eligible to receive disability benefits when: (a) a total disability lasting 12 months or more does not allow the continuation of teaching, (b) the member has accumulated five years of credited service in North Dakota, and (c) the Board of 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 70.5. 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, 2015, the Ellendale Public School District reported a liability of \$3,079,666 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The district's proportion of the net pension liability was based on the district's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At June 30, 2014 the district's proportion was .293911 percent.

For the year ended June 30, 2015 the district recognized pension expense of \$187,202. At June 30, 2015 the district 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	23,548	
Net difference between projected and actual earnings on pension plan investments		349,857
District contributions subsequent to the measurement date (see below)	219,129	
Total	<u>242,677</u>	<u>349,857</u>
	=====	=====

\$219,129 reported as deferred outflows of resources related to pensions resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015.

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:	

2016	(83,540)
2017	(83,540)
2018	(83,540)
2019	(83,540)
2020	3,925
Thereafter	3,925

Actuarial assumptions. The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	4.50% to 14.75%, varying by service, including inflation and productivity.
Investment rate of return	8.00%, net of investment expenses.
Cost-of-living adjustments	None

For inactive members and healthy retirees, mortality rates are based on 80% of GRS Table 378 and 75% of GRS Table 379. For active members, mortality rates are based on the post-retirement mortality rates multiplied by 60% for males and 40% for females. For disabled retirees, mortality rates are based on the RP-2000 Disabled-Life tables for males and females multiplied by 80% and 95%, respectively.

The actuarial assumptions used were based on the results of an actuarial experience study dated January 21, 2010. They are the same as the assumptions used in the July 1, 2014, funding actuarial valuation for TFFR.

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 pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	57%	7.53%
Global Fixed Income	22%	1.40%
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, 2014. 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, 2014, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2014. 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, 2014.

Sensitivity of the district's proportionate share of the net pension liability to changes in the discount rate. The following presents the district's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the district's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Rate (8%)	1% Increase (9%)
The district's proportionate share of the net pension liability	4,158,121	3,079,666	2,172,655

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

2. North Dakota Public Employees Retirement 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 NDPERS plan is financed by investment income and contributions.

Responsibility for administration of the NDPERS benefits program 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 active membership of the NDPERS system; and one member elected by the retired public employees.

Pension Benefits

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members 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). The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

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

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

Member and Employer Contributions

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

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

At June 30, 2015, the Ellendale Public School District reported a liability of \$261,988 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The district's proportion of the net pension liability was based on the district'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, 2014 the district's proportion was .041276 percent.

For the year ended June 30, 2015 the district recognized pension expense of \$25,922. At June 30, 2015 the district reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	-----	-----
Differences between expected and actual experience	8,494	
Net difference between projected and actual earnings on pension plan investments		51,141
District contributions subsequent to the measurement date (see below)	29,773	
Total	<u>38,267</u>	<u>51,141</u>
	=====	=====

\$29,773 reported as deferred outflows of resources related to pensions resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015.

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:	

2016	(11,102)
2017	(11,102)
2018	(11,102)
2019	(11,102)
2020	1,265
Thereafter	0

Actuarial assumptions. The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	3.85% per annum for four years, then 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 with ages set back three years. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not set back for females).

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2010. They are the same as the assumptions used in the July 1, 2014, funding actuarial valuation for NDPERS.

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 pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.55%
International Equity Income	5%	0.90%
Global Real Assets	20%	5.38%
Cash Equivalents	5%	0.00%

Discount rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2014. 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, 2014, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2014. 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, 2014.

Sensitivity of the district's proportionate share of the net pension liability to changes in the discount rate. The following presents the district's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the district's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Rate (8%)	1% Increase (9%)
The district's proportionate share of the net pension liability	404,062	261,988	143,194

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

Note 12 PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to the Governmental Activities. This adjustment was made to account for the district's net pension liability less it's deferred outflows of resources at July 1, 2014.

ELLENDALE PUBLIC SCHOOL DISTRICT NO. 40
Ellendale, North Dakota

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Local Sources	1,198,940.00	1,183,500.00	1,108,925.83	(74,574.17)
State Sources	2,681,366.76	2,681,366.76	2,740,198.37	58,831.61
Federal Sources	203,415.86	229,692.40	196,470.45	(33,221.95)
Other Sources	90,500.00	90,500.00	57,963.10	(32,536.90)
Total Revenues	4,174,222.62	4,185,059.16	4,103,557.75	(81,501.41)
<u>Expenditures:</u>				
Current:				
Regular Instruction	2,022,693.00	2,019,203.00	2,003,474.07	15,728.93
Federal Programs	176,804.00	219,112.40	187,393.51	31,718.89
Special Education	76,782.00	76,782.00	65,517.27	11,264.73
Vocational Education	234,269.00	236,169.00	183,230.53	52,938.47
District Wide Services	242,608.00	244,531.00	185,095.66	59,435.34
Administration	373,333.00	373,333.00	355,104.55	18,228.45
Operations and Maintenance	690,525.00	692,717.00	654,393.16	38,323.84
Student Transportation	409,183.00	329,736.00	275,835.31	53,900.69
Student Activities	189,180.00	190,594.00	139,045.17	51,548.83
Tuition and Assessments	140,000.00	90,000.00	87,900.04	2,099.96
Food Services	70,694.00	70,694.00	304.90	70,389.10
Capital Outlay		115,444.00	115,444.00	
Debt Service:				
Principal	42,727.67	42,727.67	42,727.67	
Interest	2,272.33	2,272.33	2,272.33	
Total Expenditures	4,671,071.00	4,703,315.40	4,297,738.17	405,577.23
Net Change in Fund Balances	(496,848.38)	(518,256.24)	(194,180.42)	324,075.82
Fund Balance - July 1	1,462,930.06	1,462,930.06	1,462,930.06	
Fund Balance - June 30	966,081.68	944,673.82	1,268,749.64	324,075.82

ELLENDALE PUBLIC SCHOOL DISTRICT NO. 40
Ellendale, North Dakota

Notes to the Budgetary Comparison Schedule
June 30, 2015

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

The governing board approved the following amendments to the school district's budget for the year ending June 30, 2015:

Estimated Revenues

	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
General Fund	4,174,223	10,836	4,185,059

Appropriations

	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
General Fund	4,671,071	32,244	4,703,315

ELLENDALE PUBLIC SCHOOL DISTRICT NO. 40
Ellendale, North Dakota

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

	2015 -----
District's proportion of the net pension liability	0.293911%
District's proportionate share of the net pension liability	3,079,666
District's covered-employee payroll	1,704,838
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	180.64%
Plan fiduciary net position as a percentage of the total pension liability	66.6%

Schedule of Employer Contributions
ND Teacher's Fund for Retirement
Last 10 Fiscal Years*

	2015 -----
Statutorily required contribution	183,269
Contributions in relation to the statutorily required contribution	(183,269)
Contribution deficiency (excess)	0
District's covered-employee payroll	1,704,838
Contributions as a percentage of covered-employee payroll	10.75%

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

ELLENDALE PUBLIC SCHOOL DISTRICT NO. 40
Ellendale, North Dakota

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

	2015 -----
District's proportion of the net pension liability	0.041276%
District's proportionate share of the net pension liability	261,988
District's covered-employee payroll	389,444
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	67.27%
Plan fiduciary net position as a percentage of the total pension liability	77.7%

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

	2015 -----
Statutorily required contribution	25,898
Contributions in relation to the statutorily required contribution	(25,898)
Contribution deficiency (excess)	0
District's covered-employee payroll	389,444
Contributions as a percentage of covered-employee payroll	6.65%

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

ELLENDALE PUBLIC SCHOOL DISTRICT NO. 40
Ellendale, North Dakota

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2015

	Special Reserve	Food Service	Building	Total Nonmajor Governmental Funds
<u>ASSETS:</u>				
Cash and Investments	44,345.70	83,979.14	115,213.90	243,538.74
Taxes Receivable			11,279.07	11,279.07
Due from County Treasurer			1,513.53	1,513.53
 Total Assets	 44,345.70	 83,979.14	 128,006.50	 256,331.34
=====				
<u>DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>				
<u>Deferred Inflows of Resources:</u>				
Unavailable Revenue			11,279.07	11,279.07
 <u>Fund Balances:</u>				
Restricted for:				
Special Purposes	44,345.70			44,345.70
Food Service		83,979.14		83,979.14
Capital Projects			116,727.43	116,727.43
 Total Fund Balances	 44,345.70	 83,979.14	 116,727.43	 245,052.27
 Total Deferred Inflows of Resources and Fund Balances				
	44,345.70	83,979.14	128,006.50	256,331.34
=====				

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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

INDEPENDENT AUDITOR'S REPORT

Governing Board
Ellendale Public School District No. 40
Ellendale, 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 the Ellendale Public School District No. 40, Ellendale, North Dakota, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the school district's basic financial statements, and have issued our report thereon dated July 31, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items II-1 and II-2, that we consider to be significant deficiencies.

Compliance and Other Matters

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

School District's Response to Findings

The school district's response to the findings identified in our audit are described in the accompanying *Schedule of Findings and Responses*. The school district'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 school district's internal control or on compliance. This is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the school district's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rath and Mehner

Rath and Mehner, P.C.

Bismarck, North Dakota

July 31, 2015

ELLENDALE PUBLIC SCHOOL DISTRICT NO. 40
Ellendale, North Dakota

Schedule of Findings and Responses
For the Year Ended June 30, 2015

SECTION I - SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

Governmental Activities	Unmodified
Major Governmental Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal control over financial reporting:

* Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No
* Significant deficiency(ies) identified?	_____ <u>X</u> Yes	_____ None Reported
Noncompliance material to financial statements noted?	_____ Yes	_____ <u>X</u> No

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. Segregation of Duties

Condition: The school district has one person responsible for most accounting functions.

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

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

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

Client Response: No response is considered necessary.

2. Financial Statement Preparation

Condition: The school district's financial statements as of June 30, 2015 are prepared by the school district's external auditors.

Criteria: A good system of internal controls requires the school district to determine that the financial statements are prepared based on accounting principles generally accepted in the United States of America. This means that the school district must maintain knowledge of current accounting principles and required financial statement disclosures.

Effect: A control system is not in place to determine that the financial statements are properly stated and in compliance with accounting principles generally accepted in the United States of America.

Recommendation: We recommend the school district obtain the necessary knowledge of current accounting principles to prepare financial statements or outsource the preparation of its financial statements.

Client Response: It is not cost effective for the school district to prepare its own financial statements.