

**GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
GRAND FORKS, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
ROSTER OF SCHOOL OFFICIALS – UNAUDITED
AT JUNE 30, 2016

Mr. Douglas Carpenter	President
Mr. Eric Burin	Vice-President
Mr. Bill Palmiscno	Board Member
Ms. Vicki Ericson	Board Member
Ms. Meggen Sande	Board Member
Mr. Dane Ferguson	Board Member
Mr. Matt Spivey	Board Member
Dr. Eric Lunn	Board Member
Mr. Ward Johnson	Board Member
Dr. Larry P. Nybladh	Superintendent
Mr. Jody Thompson	Assistant Superintendent
Mr. Edwin Gerhardt	Business Manager



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Grand Forks Public School District No. 1
Grand Forks, 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 Grand Forks Public School District No. 1, 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 the Grand Forks Public School District No. 1, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows 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, budgetary comparison information, schedule of District's contributions to TFFR retirement plan, and schedule of District's proportionate share of net pension liability as listed in the table of contents 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 District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The roster of school officials on page 1 has 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 District's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS NORTH DAKOTA**

November 23, 2016

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

The discussion and analysis of Grand Forks Public School District'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.

Financial Highlights

Key financial highlights for 2016 are as follows:

- Net position of the District decreased by \$1,335,803 as a result of the current year's operations.
- Governmental net position totaled \$8,061,786.
- The District's general fund had \$95,690,316 in total revenues and \$96,410,267 in expenditures. Overall, the general fund balance decreased by \$685,007 for the year ended June 30, 2016, and now totals \$19,859,114.

This annual report consists of a series of financial statements and related footnotes. These statements are organized so the reader can understand Grand Forks Public School District No. 1 as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities. The Statement of Net Position and Statement of Activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, 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 District's most significant funds with all other non-major funds presented in total in one column.

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did the District do financially during the year ended June 30, 2016?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets, liabilities and deferred inflows/outflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net position and changes in that position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the District's property tax base, current property tax laws in North Dakota, facility condition, required educational programs and other factors.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

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.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund, Special Assessment Fund, Food Service Fund and Building Fund.

Governmental Funds

The School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the 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.

Financial Analysis of the District as a Whole

Recall that the Statement of Net Position provides the perspective of the District as a whole.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

Table 1 provides a summary of the District's net position as of June 30, 2016.

Table 1
Net Position

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Assets			
Current Assets	\$ 23,254,834	\$ 25,125,752	\$ (1,870,918)
Capital Assets (net of accumulated depreciation)	<u>100,618,859</u>	<u>102,294,077</u>	<u>(1,675,218)</u>
Total Assets	<u>123,873,693</u>	<u>127,419,829</u>	<u>(3,546,136)</u>
Deferred Outflows of Resources	<u>16,708,490</u>	<u>6,055,327</u>	<u>10,653,163</u>
Liabilities			
Current Liabilities	5,375,246	5,451,008	(75,762)
Long-Term Liabilities	<u>124,034,142</u>	<u>110,061,433</u>	<u>13,972,709</u>
Total Liabilities	<u>129,409,388</u>	<u>115,512,441</u>	<u>24,550,110</u>
Deferred Inflows of Resources	<u>3,111,009</u>	<u>8,565,127</u>	<u>(5,454,118)</u>
Net Position			
Net Investment in Capital Assets	67,084,956	66,785,071	299,885
Unrestricted	<u>(59,023,170)</u>	<u>(57,387,482)</u>	<u>(1,635,688)</u>
Total Net Position	<u>\$ 8,061,786</u>	<u>\$ 9,397,589</u>	<u>\$ (1,335,803)</u>

The increase in long-term liabilities was due to an increase in the net pension liability during the year.

The District's net position of \$8,061,786 is segregated into two separate categories. Net investment in capital assets represents \$67,084,956 of the District's entire net position. It should be noted that these resources are not available for future spending.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

Table 2 shows the changes in net position for the fiscal year ended June 30, 2016.

Table 2
Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Revenues			
Program Revenues:			
Charges for Services	\$ 6,792,440	\$ 6,841,816	\$ (49,376)
Operating Grants and Contributions	14,203,160	13,287,230	915,930
General Revenues:			
Taxes	19,815,791	18,452,423	1,363,368
State Aid	61,899,410	59,531,235	2,368,175
Other	<u>772,515</u>	<u>1,073,566</u>	<u>(301,051)</u>
Total Revenues	<u>103,483,316</u>	<u>99,186,270</u>	<u>4,297,046</u>
Expenses			
Instruction	65,519,783	58,355,248	7,164,535
Support Services:			
Pupil and Instructional Staff Services	10,014,668	9,346,270	668,398
Headstart	332,686	294,129	38,557
Special Education	2,398,416	2,426,788	(28,372)
Career Technical Education	593,452	504,040	89,412
General Administration Services	1,195,829	1,197,669	(1,840)
School Administration Services	5,193,266	4,992,183	201,083
Businesss Services	2,050,865	1,845,095	205,770
Operations and Maintenance	7,811,662	7,745,713	65,949
Pupil Transportation Services	1,471,088	1,172,363	298,725
Extracurricular Activities	3,005,691	2,873,805	131,886
Food Services	4,274,470	4,142,723	131,747
Community Services	371,645	374,271	(2,626)
Interest on Long-Term Debt	<u>585,598</u>	<u>573,391</u>	<u>12,207</u>
Total Expenses	<u>104,819,119</u>	<u>95,843,688</u>	<u>8,975,431</u>
Increase (Decrease) in Net Position	<u>\$ (1,335,803)</u>	<u>\$ 3,342,582</u>	<u>\$ (4,678,385)</u>

Property taxes constituted 19%, state aid 60%, operating grants and contributions 14%, and charges for services made up 7% of the total revenues of governmental activities of the District for fiscal year 2016. Instruction comprises 63% of district expenses.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

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
Cost of Services

	<u>Total Cost for</u> <u>Year Ended</u> <u>06/30/16</u>	<u>Net Cost for</u> <u>Year Ended</u> <u>06/30/16</u>
Instruction	\$ 65,519,783	\$ 50,266,347
Support Services:		
Pupil and Instructional Staff Services	10,014,668	10,014,668
Headstart	332,686	332,686
Special Education	2,398,416	2,398,416
Career Technical Education	593,452	584,212
General Administration Services	1,195,829	1,195,829
School Administration Services	5,193,266	5,193,266
Businesss Services	2,050,865	2,050,865
Operations and Maintenance	7,811,662	7,791,882
Pupil Transportation Services	1,471,088	1,007,111
Extracurricular Activities	3,005,691	2,323,994
Food Services	4,274,470	(293,000)
Community Services	371,645	371,645
Interest on Long-Term Debt	<u>585,598</u>	<u>585,598</u>
Total Expenses	<u>\$ 104,819,119</u>	<u>\$ 83,823,519</u>

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil. Pupils and instructional staff include the activities involved with assisting staff with the content and process of teaching to pupils. General administration, school administration, and business services include expenses associated with administrative and financial supervision of the District. Operation and maintenance of plant activities involve maintaining the school grounds, buildings, and equipment in an effective working condition. Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law. Extracurricular activities include expenses related to student activities provided by the District which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment and skill improvement. Food Services include expenses directly dealing with providing breakfast and lunch service to students and staff of the District.

Interest on long-term debt involves the transactions associated with the payment of interest and other related charges to debt of the District.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

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. Unassigned 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 by using the modified accrual basis of accounting. The District's governmental funds had total revenues of \$103,276,579 and total expenditures of \$104,787,085 for the year ended June 30, 2016. As of June 30, 2016, the unassigned fund balance of the District's governmental funds was \$16,257,865.

General Fund Budgeting Highlights

During the course of the 2016 fiscal year, the District believes the variances between budgeted and actual are small. This indicates that the users of the District's budget and financial statements were well informed. The District did not amend its budget.

The District's final budget for the general fund anticipated the expenditures and other financing uses would exceed revenues by \$1; the actual results show expenditures and other financing uses exceeded revenues by \$685,007.

- Revenues were \$1,228,117 more than projections, largely due to an increase of \$465,156 over the budgeted amount of \$4,148,000 in funding from charges for services and an increase of \$476,651 in other local services.
- The actual expenditures were \$2,448,067 above the budgeted figure due to an increase of \$837,709 in extracurricular expenditures during the year.

The General Fund ended with a fund balance of \$19,859,114 which was a decrease of \$685,006 over the final budgeted amount.

Capital Assets

As of June 30, 2016, the District had \$100,618,859 invested in capital assets. Table 4 shows balances as of June 30, 2016 and 2015, respectively. See Note 5 for additional details.

Table 4
Capital Assets (Net of Depreciation)

	2016	2015
School Sites and Other Lands	\$ 7,197,202	\$ 6,653,030
Buildings and Improvements	90,706,590	77,997,607
Furniture and Equipment	2,117,566	2,210,613
Construction in Progress	597,501	15,432,827
Total	\$ 100,618,859	\$ 102,294,077

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

Debt Administration

As of June 30, 2016, the District had \$127,197,199 in outstanding debt, with \$3,163,057 due within one year. The District had an overall increase in debt of \$14,436,321 from June 30, 2015 primarily due to the increase in net pension liability during the year. See Note 6 for additional details.

Table 5
Summary of Outstanding Long-Term Debt

	2016	2015
Bond and Notes Payable	\$ 32,053,317	\$ 33,849,721
Capital Leases Payable	22,656	-
Special Assessments Payable	1,457,928	1,659,285
Severance Payable	2,162,261	1,724,916
Sick Leave Payable	134,431	131,250
Net Pension Liability	91,366,606	75,395,706
	\$ 127,197,199	\$ 112,760,878

For the Future:

BUDGET AND TAX LEVY:

Fiscal Year 2016-2017

On September 9, 2016, The Grand Forks School Board gave final approval for the 2016-2017 general fund budget with estimated revenues and expenditures both totaling \$100,000,000. The District has operated for many years with an unlimited mill levy approved by voters but due to legislative action, the District has a deadline of 2017 to transition to levy limitations established for all North Dakota school districts. The FY 16-17 budget was based on a mill levy of 82 mills which is within legal limits. The School Board also approved a Building Fund levy of 13.36 mills and a levy of 2.00 mills for the Special Assessment Fund. The total levy of 97.36 mills is identical to the FY 14-15 levy.

Contacting the District's Financial Management:

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. You may request a copy of this report by contacting Ed Gerhardt, Business Manager, Grand Forks Public School District, P.O. Box 6000, 2400 47th Avenue South, Grand Forks, ND 58201-3405, or email at ed.gerhardt@gfschools.org.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF NET POSITION
AS OF JUNE 30, 2016

	Governmental Activities
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 15,339,446
Investments	3,393,596
Accounts Receivable	1,980,467
Interest Receivable	320,164
Property Taxes Receivable	1,907,687
Inventory	313,474
Total Current Assets	23,254,834
Non-Current Assets	
Non Depreciable Capital Assets	7,794,703
Capital Assets, Net of Accumulated Depreciation	92,824,156
Total Non-Current Assets	100,618,859
Total Assets	123,873,693
Deferred Outflows of Resources	
Cost Sharing Defined Benefit Pension Plan - TFFR	16,708,490
Total Deferred Outflows of Resources	16,708,490
Liabilities	
Current Liabilities	
Accounts Payable and Other Accrued Liabilities	1,219,539
Accrued Expenses	161,851
Salaries Payable	243,174
Accrued Interest	466,420
Unearned Revenue	121,205
Current Portion of Non-Current Liabilities	3,163,057
Total Current Liabilities	5,375,246
Non-Current Liabilities	
Sick Leave Payable	134,431
Severance Payable	2,162,259
Special Assessments Payable	1,457,928
Bonds and Notes Payable	32,053,319
Capital Lease Payable	22,656
Net Pension Liability	91,366,606
Less Current Portion	(3,163,057)
Total Non-Current Liabilities	124,034,142
Total Liabilities	129,409,388
Deferred Inflows of Resources	
Cost Sharing Defined Benefit Pension Plan - TFFR	3,111,009
Total Deferred Inflows of Resources	3,111,009
Net Position	
Net Investment in Capital Assets	67,084,956
Unrestricted	(59,023,170)
Total Net Position	\$ 8,061,786

See Notes to the Financial Statements

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities
Primary Government				
Governmental Activities:				
Instruction				
Regular	\$ 46,612,406	\$ 3,816,699	\$ 5,902,273	\$ (36,893,434)
Special Education	13,672,932	-	2,004,247	(11,668,685)
Career Technical Education	3,848,699	-	1,046,545	(2,802,154)
Headstart	1,385,746	-	2,483,672	1,097,926
Total Instruction	65,519,783	3,816,699	11,436,737	(50,266,347)
Support Services:				
Pupil and Instructional Staff Services	10,014,668	-	-	(10,014,668)
Headstart	332,686	-	-	(332,686)
Special Education	2,398,416	-	-	(2,398,416)
Career Technical Education	593,452	-	9,240	(584,212)
General Administration Services	1,195,829	-	-	(1,195,829)
School Administration Services	5,193,266	-	-	(5,193,266)
Businesss Services	2,050,865	-	-	(2,050,865)
Operations and Maintenance	7,811,662	19,780	-	(7,791,882)
Pupil Transportation Services	1,471,088	94,980	368,997	(1,007,111)
Extracurricular Activities	3,005,691	681,697	-	(2,323,994)
Food Services	4,274,470	2,179,284	2,388,186	293,000
Community Services	371,645	-	-	(371,645)
Interest on Long-Term Debt	585,598	-	-	(585,598)
Total Support Services	39,299,336	2,975,741	2,766,423	(33,557,172)
Total Primary Government	\$ 104,819,119	\$ 6,792,440	\$ 14,203,160	(83,823,519)
General Revenues and Transfers				
Taxes				
Property Taxes, Levied for General Purpose				16,813,278
Property Taxes, Levied for Building Fund				2,611,008
Property Taxes, Levied for Special Assessment				391,505
State Aid Not Restricted for Specific Purposes				
Per Pupil Aid				61,899,410
Interest Income and Other Revenues				772,515
Total General Revenues and Transfers				82,487,716
Change in Net Position				(1,335,803)
Net Position, Beginning				9,397,589
Net Position, Ending				\$ 8,061,786

See Notes to the Financial Statements

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF JUNE 30, 2016

	General Fund	Special Assessment Fund	Food Service Fund	Building Fund	Total Governmental Funds
Assets					
Cash and Cash Equivalents	\$ 12,525,706	\$ -	\$ 1,721,424	\$ -	\$ 14,247,130
Investments	3,378,539	-	-	12,237	3,390,776
Property Taxes Receivable	1,655,849	32,814	-	219,024	1,907,687
Accounts Receivable	1,937,617	-	28,439	-	1,966,056
Due From Other Funds	2,430,044	-	-	-	2,430,044
Inventory	232,635	-	80,839	-	313,474
Total Assets	\$ 22,160,390	\$ 32,814	\$ 1,830,702	\$ 231,261	\$ 24,255,167
Liabilities					
Accounts Payable	\$ 104,664	\$ -	\$ -	\$ 59,658	\$ 164,322
Accrued Liabilities	161,851	-	-	-	161,851
Salaries Payable	243,174	-	-	-	243,174
Due to Other Funds	-	653,324	-	1,776,720	2,430,044
Severance Payable	993,899	-	-	-	993,899
Unearned Revenue	-	-	121,205	-	121,205
Total Liabilities	1,503,588	653,324	121,205	1,836,378	4,114,495
Deferred Inflows of Resources					
Unavailable Revenue - Property Taxes	797,688	19,412	-	129,676	946,776
Total Deferred Inflows of Resources	797,688	19,412	-	129,676	946,776
Fund Balance					
Non-Spendable	232,635	-	80,839	-	313,474
Assigned	993,899	-	1,628,658	-	2,622,557
Unassigned	18,632,580	(639,922)	-	(1,734,793)	16,257,865
Total Fund Balance (Deficit)	19,859,114	(639,922)	1,709,497	(1,734,793)	19,193,896
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 22,160,390	\$ 32,814	\$ 1,830,702	\$ 231,261	\$ 24,255,167

See Notes to the Financial Statements

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE DISTRICT WIDE STATEMENT OF NET POSITION
AS OF JUNE 30, 2016

Fund balance - governmental funds \$ 19,193,896

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

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

Cost of Capital Assets	\$	155,068,141	
Less: Accumulated Depreciation		<u>(54,449,282)</u>	
Net		100,618,859	100,618,859

Net deferred outflows/(inflows) of resources relating to the cost sharing of defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows/(inflows) of resources in the governmental funds. 13,597,481

Property taxes receivable will be collected during the year, but are not available soon enough to pay for the current period's expenditures, and, therefore are unavailable in the governmental funds. 946,776

The District accounts for its self-funded health insurance plan as an internal service fund. The assets and liabilities of the internal service fund are included with the governmental activities. 54,325

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These long-term liabilities consisted of the following:

Bonds Payable	32,053,319		
Capital Leases Payable	22,656		
Special Assessments Payable	1,457,928		
Sick Leave Payable	134,431		
Early Retirement Payable	1,168,360		
Net Pension Liability	<u>91,366,606</u>		
Total	126,203,300		(126,203,300)

Interest receivable/payable is not due and payable in the current period and, therefore, is not reported as a receivable/liability in the governmental funds. (146,251)

Net Position - Governmental Activities \$ 8,061,786

See Notes to the Financial Statements

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>Special Assessment Fund</u>	<u>Food Service Fund</u>	<u>Building Fund</u>	<u>Total Governmental Funds</u>
Revenues					
Property Taxes	\$ 16,051,823	\$ 391,505	\$ -	\$ 2,611,008	\$ 19,054,336
Payments in Lieu of Taxes	561,309	-	-	-	561,309
Other Local Sources	557,964	-	39,228	-	597,192
Intergovernmental	73,737,367	-	2,365,201	-	76,102,568
Charges for Services	4,613,156	-	2,179,285	-	6,792,441
Contributions and Donations	35,174	-	-	-	35,174
Investment Income	133,523	-	36	-	133,559
Total Revenues	<u>95,690,316</u>	<u>391,505</u>	<u>4,583,750</u>	<u>2,611,008</u>	<u>103,276,579</u>
Expenditures					
Instruction:					
Pupil and Instructional Staff Services	44,726,025	-	-	-	44,726,025
Special Education	13,224,383	-	-	-	13,224,383
Career Technical Education	3,723,424	-	-	-	3,723,424
Headstart	1,327,143	-	-	-	1,327,143
Total Instruction	<u>63,000,975</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,000,975</u>
Support Services:					
Pupil and Instructional Staff Services	7,482,561	-	-	-	7,482,561
Headstart	318,973	-	-	-	318,973
Special Education	2,387,738	-	-	-	2,387,738
Career Technical Education	505,869	-	-	-	505,869
General Administrative Services	1,177,423	-	-	-	1,177,423
School Administrative Services	5,149,861	-	-	-	5,149,861
Business Services	1,869,413	-	-	-	1,869,413
Operations and Maintenance	7,744,754	-	-	-	7,744,754
Pupil Transportation Services	1,190,731	-	-	-	1,190,731
Extracurricular	3,001,403	-	-	-	3,001,403
Food Services	14,298	-	4,155,705	-	4,170,003
Community Services	371,170	-	-	-	371,170
Capital Outlay	2,182,810	220,305	132,514	1,489,410	4,025,039
Debt Service:					
Principal	12,288	-	-	1,796,402	1,808,690
Interest	-	-	-	582,482	582,482
Total Support Services	<u>33,409,292</u>	<u>220,305</u>	<u>4,288,219</u>	<u>3,868,294</u>	<u>41,786,110</u>
Total Expenditures	<u>96,410,267</u>	<u>220,305</u>	<u>4,288,219</u>	<u>3,868,294</u>	<u>104,787,085</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(719,951)</u>	<u>171,200</u>	<u>295,531</u>	<u>(1,257,286)</u>	<u>(1,510,506)</u>
Other Financing Sources (Uses)					
Proceeds from Long Term Debt	34,944	-	-	-	34,944
Total Other Financing Sources (Uses)	34,944	-	-	-	34,944
Net Change in Fund Balances	(685,007)	171,200	295,531	(1,257,286)	(1,475,562)
Fund Balances, Beginning of Year	<u>20,544,121</u>	<u>(811,122)</u>	<u>1,413,966</u>	<u>(477,507)</u>	<u>20,669,458</u>
Fund Balances, End of Year	<u>\$ 19,859,114</u>	<u>\$ (639,922)</u>	<u>\$ 1,709,497</u>	<u>\$ (1,734,793)</u>	<u>\$ 19,193,896</u>

See Notes to the Financial Statements

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
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

Total net changes in fund balances - Governmental Funds \$ (1,475,562)

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

Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital Outlay	\$ 1,934,175	
Depreciation Expense	<u>(3,226,405)</u>	
Excess of Depreciation Expense Over Capital Outlay		(1,292,230)

When recognizing the sale of capital assets, the governmental funds report the total proceeds of the sale. Only the gain or loss of the sale is reported on the statement of net position.

Loss on disposal of capital assets		(382,988)
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The repayment of long-term debt is reported as an expenditure in the governmental funds. However, the repayment reduces long-term liabilities in the statement of net position.

1,808,690

Changes in deferred outflows and inflows of resources related to the net pension liability

16,107,281

Change in net pension liability

(15,970,900)

Issuance of Capital Lease

(34,940)

Some revenues will not be collected for several months after the District's fiscal year end. These revenues are not considered "available" revenues in the governmental funds. These consist of:

Unavailable property taxes		200,148
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

11,339

Interest income in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as a revenue in the governmental funds when it is received. In the statement of activities, however, interest income is recognized as the interest is earned, regardless of when it is received.

(29,658)

Some items 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. These activities consist of:

Sick Leave		(3,181)
Long-Term Severance		(215,602)
Special Assessments		201,357

An internal service fund is used by the District to account for its self-funded health insurance plan. The net income of the internal service fund is reported with the governmental activities.

(259,557)

Change in Net Position - Governmental Activities

\$ (1,335,803)

See Notes to the Financial Statements

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
AS OF JUNE 30, 2016

		<u>Governmental Activities</u> <u>Internal Service Funds</u>
Assets		
Cash and Cash Equivalents	\$	1,092,315
Investments		2,821
Accounts Receivable		14,411
Total Assets		<u>1,109,547</u>
 Liabilities		
Accounts Payable and Accrued Liabilities		<u>1,055,222</u>
Total Liabilities		<u>1,055,222</u>
 Net Position		
Unrestricted		<u>54,325</u>
Total Net Position	\$	<u><u>54,325</u></u>

See Notes to the Financial Statements

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN NET POSITION – PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Governmental Activities	Internal Service Funds
Revenues		
Other Local Revenues	\$	36,248
Insurance Contributions		8,924,576
Total Revenues		8,960,824
Expenses		
Health Claims Paid		7,425,138
Insurance Premiums Paid and Administrative Charges		1,796,796
Total Expenses		9,221,934
Operating Income (Loss)		(261,110)
Non-Operating Revenues (Expenses)		
Interest Income		1,554
Total Non-Operating Revenues (Expenses)		1,554
Change in Net Position		(259,556)
Total Net Position, Beginning of Year		313,881
Total Net Position, End of Year	\$	54,325

See Notes to the Financial Statements

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

		<u>Governmental Activities</u> <u>Internal Service Funds</u>
Cash Flow From Operating Activities:		
Cash Received from Charges to Other Funds	\$	8,960,824
Cash Paid to Insurance Claims by Operating Activities		<u>(8,941,260)</u>
Net Cash Provided (Used) by Operating Activities		<u>19,564</u>
Cash Flow From Investing Activities:		
Purchase of Investments		(1,554)
Interest on Investments		<u>1,554</u>
Net Cash Provided (Used) by Investing Activities		<u>-</u>
Net Increase in Cash and Cash Equivalents		19,564
Cash and Cash Equivalents - Beginning of Year		<u>1,072,751</u>
Cash and Cash Equivalents - End of Year	\$	<u><u>1,092,315</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) By Operating Activities:		
Operating Income (Loss)	\$	(261,110)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Changes in Assets:		
Accounts Receivable		16,454
Changes in Liabilities:		
Accounts Payable and Accrued Liabilities		<u>264,220</u>
Net Cash Provided (Used) by Operating Activities	\$	<u><u>19,564</u></u>

See Notes to the Financial Statements

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF ASSETS & LIABILITIES– FIDUCIARY FUNDS
AS OF JUNE 30, 2016

	Total Agency Funds
Assets	
Cash and Cash Equivalents	\$ 839,090
Accounts Receivable	<u>199,469</u>
Total Assets	<u><u>\$ 1,038,559</u></u>
Liabilities	
Due to Student Groups	\$ 791,380
Due to Other Governments	<u>247,179</u>
Total Liabilities	<u><u>\$ 1,038,559</u></u>

See Notes to the Financial Statements

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2016

NOTE 1 DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Grand Forks Public School District operates the public schools in the City of Grand Forks, North Dakota. There are thirteen elementary schools, three junior high schools, two senior high schools and one alternative 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 these criteria, the Grand Forks School District Building Authority is included in the District's reporting entity as a blended component unit.

The Grand Forks School District Building Authority leases various facilities and capital improvements to the Grand Forks Public School District. The Building Authority does not prepare any external financial statements.

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 significant accounting policies are described below.

Basis of Presentation

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

Government-wide Financial Statements

The government-wide financial statements consist of a Statement of Net Position 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, and grants and contributions that are restricted to meet the operational or capital requirements of a particular program.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

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. Non-major funds are aggregated and presented in a single column. The fiduciary fund is reported by type.

Fund Accounting

The District's funds consist of the following:

Governmental Funds

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

General Fund

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

Special Revenue Funds - Accounts for proceeds of specific revenue sources (other than permanent fund and major capital projects) that are legally restricted to expenditures for specific purposes. The District's special revenue funds and their purpose are as follows:

Special Assessment Fund - This fund accounts for the financial resources associated with special assessment projects at various sites.

Food Service Fund - This fund accounts for the financial resources associated with the District's hot lunch program.

Building Fund

This fund accounts for the financial resources associated with capital improvement projects at various sites.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

Proprietary Funds

The reporting focus of proprietary funds is on the determination of net income, financial position and changes in financial position (economic resources). These funds are used to account for activities which are similar to those found in the private sector. The funds are maintained on the accrual basis of accounting.

Internal Service Funds

The reporting focus of internal service funds is on services provided by one fund of the District to other funds on a cost reimbursement basis. The District's only internal service fund consists of the following:

Self-funded Insurance Fund - This fund accounts for the financial transactions related to the District's self-funded health insurance and unemployment compensation plans.

Fiduciary Funds

The reporting focus of fiduciary funds is on net position and changes in net position. The District has three fiduciary funds which are all agency funds. 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 following:

Student Activity Fund –The fund accounts for the financial transactions related to the District's student activity programs.

Red River Valley Education Cooperative – The fund accounts for the financial transactions related to the activities for one of the eight region state networks comprising the North Dakota Regional Education Association.

Succeed 2020 - The fund accounts for the financial transactions related to a large grant the RRVEC received.

Measurement Focus and Basis of Accounting

Measurement Focus

Government-wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, liabilities and deferred inflows/outflows of resources associated with the operation of the District are included in the statement of net position.

Fund Financial Statements:

The governmental funds are accounted for using a flow of current financial resources measurement focus. Under this measurement focus, only current assets, current liabilities and current deferred inflows/outflows of resources 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.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

The current financial resources measurement focus differs from the manner which the governmental activities of the government-wide financial statements are prepared. Due to the difference, 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 government funds.

Fiduciary Funds also use the economic resources measurement focus.

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Government-wide financial statements are prepared on the accrual basis of accounting. 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 related cash flows. The District's internal service fund also uses the accrual basis of accounting.

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 measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenues to be available if they are collected within 60 days of the end of its fiscal year. Expenditures are generally recorded as the related fund liability is incurred.

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

Revenues-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.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

Unearned Revenues

Unearned revenue arises when assets are recognized in the financial statements before the revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenues.

On the governmental fund financial statements, food service prepayments are reported as unearned as the services have not been provided.

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.

Cash and Cash Equivalents

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

Investments

Investments are recorded at market value. North Dakota state statute authorizes school districts to invest their surplus funds in: a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, 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 of the state, d) Obligations of the state.

Fair Value Measurements

The District accounts for all assets and liabilities that are being measured and reported on a fair value basis in accordance with GAAP. GAAP defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements.

When fair value measurements are required, various data is used in determining those values. This statement requires that assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1	Quoted market prices in active markets for identical assets or liabilities.
Level 2	Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3	Unobservable inputs that are not corroborated by market data.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. They are stated at cost determined on a weighted average basis. They are recorded as expenditures at the time individual inventory items are used.

Capital Assets

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

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

Improvements other than Buildings	15 years
Buildings and Improvements	50 years
Furniture and Equipment	5 to 15 years

Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB No. 16, *Accounting for Compensated Absences*. Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability for those employees who were employed under the Custodial and Maintenance and Secretarial Work Agreements, 1989-91. These employees began work before July 1, 1991. The amount is based on accumulated sick leave as of June 30, 1991, less any days the employee may have used after June 30, 1991. The District records the liability at the current wage rates of the employee at fiscal year end.

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.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

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.

Fund Balance Classifications

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the school board-the District's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification reflects the amounts constrained by the District's "intent" to be used for specific purposes, but are neither restricted nor committed. The school board or superintendent have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned – This fund balance is the residual classification for the General fund. It is also used to report negative fund balances in other governmental funds.

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

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

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/expenditure) until then. The District has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents actuarial differences within the TFFR pension plan as well as contributions to the plan made after the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue – property taxes*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District also has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents the actuarial differences within the TFFR pension plan.

Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Inter-fund 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 inter-fund transfers. Inter-fund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Inter-fund activities within the District's governmental activities and its business-type activities, are eliminated in the statement of activities.

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.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

The District has established a self-funded health insurance plan. Because of the inherent uncertainties associated with estimating the accrued liability for claims, it is at least reasonably possible that the estimate used will change within the near term.

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 Government 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. State laws limit property taxes. All school district tax levies are in compliance with state laws.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges to other funds for health insurance premiums. Operating expenses for the internal service fund include the cost of claims and related administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE 3 DEPOSITS AND INVESTMENTS

In accordance with North Dakota laws, the District maintains deposits at a depository authorized by the School Board. The depository is a member of the Federal Reserve System.

North Dakota state statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate surety bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. Government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. North Dakota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

At June 30, 2016, all deposits for the District were insured or collateralized by securities held by the District's agent in the District's name.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

Investments

As of June 30, 2016, the District's investments consist of the following:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value (Level 1)</u>
Cash & Cash Alternatives	Less than 1 year	\$ 10,742
Certificates of Deposit	Less than 1 year	1,607,907
Certificates of Deposit	1 - 5 years	1,488,152
Certificates of Deposit	6 - 10 years	282,570
Certificates of Deposit	Greater than 10 years	<u>4,225</u>
 Total Investments		 <u>\$ 3,393,596</u>

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that an issuer or the other counterparty to an investment will not fulfill its obligations. North Dakota laws restrict allowable investments for public funds in order to safeguard the principle on investments. The District follows North Dakota law, which authorizes political subdivisions including school districts to invest surplus funds in:

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

As a means of limiting its exposure to investing in too large of a portion in one type of investment instrument, the District has implemented a maximum percentage for each type of instrument as follows:

U.S. Treasury (Bills, Notes, Bonds)	90%
U.S. Governmental Agency Securities	90%
Certificates of Deposit	90%

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

NOTE 4 CREDIT RISK

As of June 30, 2016, the District's receivables consist of amounts due from other governmental units primarily located within the State of North Dakota and bond interest rebates due from the Internal Revenue Service in accordance with the District's 2010 taxable limited bond agreements.

NOTE 5 CAPITAL ASSETS

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

	Balance 6/30/2015	Additions	Disposals	Balance 6/30/2016
Governmental Activities				
Non-Depreciable Capital Assets:				
Construction in Progress	\$ 15,432,827	\$ 1,487,035	\$ 16,322,361	\$ 597,501
School Sites and Other Lands	6,653,030	912,704	368,532	7,197,202
Total Non-Depreciable Capital Assets:	<u>22,085,857</u>	<u>2,399,739</u>	<u>16,690,893</u>	<u>7,794,703</u>
Depreciable Capital Assets:				
Buildings	120,681,592	15,557,124	-	136,238,716
Improvements Other than Buildings	5,367,338	-	-	5,367,338
Furniture & Equipment	<u>5,476,624</u>	<u>299,673</u>	<u>108,913</u>	<u>5,667,384</u>
Total Capital Assets	<u>131,525,554</u>	<u>15,856,797</u>	<u>108,913</u>	<u>147,273,438</u>
Less Accumulated Depreciation:				
Buildings	47,107,736	2,593,235	-	49,700,971
Improvements Other than Buildings	943,587	254,906	-	1,198,493
Furniture & Equipment	<u>3,266,011</u>	<u>378,264</u>	<u>94,457</u>	<u>3,549,818</u>
Total Accumulated Depreciation	<u>51,317,334</u>	<u>3,226,405</u>	<u>94,457</u>	<u>54,449,282</u>
Net Depreciable Capital Assets	<u>82,838,565</u>	<u>12,630,392</u>	<u>14,456</u>	<u>92,824,156</u>
Governmental Activities Capital Assets, Net	<u>\$ 102,294,077</u>	<u>\$ 15,030,131</u>	<u>\$ 16,705,349</u>	<u>\$ 100,618,859</u>

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

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

Instruction:	
Regular	\$ 1,508,176
Special Education	448,549
Career Technical Education	125,275
Headstart	58,603
Support Services:	
Pupil and Instructional Staff Services	274,068
HeadStart	10,678
Special Education	87,582
Career Technical Education	18,407
General Administration Services	43,405
School Administration Services	181,452
Businesss Services	66,909
Operations and Maintenance	280,357
Pupil Transportation Services	4,289
Extracurricular Activities	104,467
Food Services	475
Community Services	13,713
	<u>\$ 3,226,405</u>

NOTE 6 LONG-TERM INDEBTEDNESS

The following is a summary of changes in long-term indebtedness of the District for the year ended June 30, 2016:

	As Restated Balance 06/30/15	Additions	Retired	Balance 06/30/16	Due Within One Year
Bonds:					
State School Construction Fund	\$ 107,623	\$ -	\$ 53,543	\$ 54,080	\$ 54,080
Bank of North Dakota	14,387,098	-	907,859	13,479,239	924,713
Taxable Limited Tax Bonds	19,355,000	-	835,000	18,520,000	920,000
Total Bonds:	<u>33,849,721</u>	<u>-</u>	<u>1,796,402</u>	<u>32,053,319</u>	<u>1,898,793</u>
Capital Leases Payable	-	34,944	12,288	22,656	11,019
Special Assessments Payable	1,659,285	151,067	352,424	1,457,928	124,915
Early Retirement Payable	1,724,916	1,210,898	773,555	2,162,259	993,899
Sick Leave Payable	131,250	4,210	1,029	134,431	134,431
Net Pension Liability	75,395,706	33,931,016	17,960,116	91,366,606	-
Totals	<u>\$ 112,760,878</u>	<u>\$ 35,332,135</u>	<u>\$ 20,895,814</u>	<u>\$ 127,197,199</u>	<u>\$ 3,163,057</u>

Governmental funds used to liquidate long-term debt are the General Fund, Building Fund and School Building Authority.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

A. Bonds:

State School Construction Fund Bond:

Annual debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 54,080	\$ 541	\$ 54,621
Total	<u>\$ 54,080</u>	<u>\$ 541</u>	<u>\$ 54,621</u>

Bank of North Dakota:

<u>Date of Issue</u>	<u>Net Interest Rate</u>	<u>Maturity Dates</u>	<u>Original Amount</u>	<u>Current Year Retired</u>	<u>Balance 06/30/16</u>	<u>Amounts Due in 2016-2017</u>	
						<u>Principal</u>	<u>Interest</u>
1994	1.00%	2016-17	\$ 3,000,000	\$ 158,671	\$ 160,258	\$ 160,258	\$ 1,603
1998	2.58%	2016-18	653,000	39,100	81,262	40,109	2,096
1999	2.58%	2016-18	1,047,000	65,225	135,541	66,908	3,497
2013B	1.95%	2016-33	15,000,000	644,863	13,102,178	657,438	255,492
				<u>\$ 907,859</u>	<u>\$ 13,479,239</u>	<u>\$ 924,713</u>	<u>\$ 262,688</u>

Annual debt service requirements to maturity are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 924,713	\$ 262,688	\$ 1,187,401
2018	780,044	245,505	1,025,549
2019	683,328	229,602	912,930
2020	696,653	216,278	912,931
2021	710,238	202,693	912,931
2022-2026	3,764,414	800,238	4,564,652
2027-2031	4,146,039	418,312	4,564,351
2032-2033	1,773,810	52,051	1,825,861
Total	<u>\$ 13,479,239</u>	<u>\$ 2,427,367</u>	<u>\$ 15,906,606</u>

Taxable Limited Tax Bonds:

<u>Date of Issue</u>	<u>Net Interest Rate</u>	<u>Maturity Dates</u>	<u>Original Amount</u>	<u>Current Year Retired</u>	<u>Balance 06/30/16</u>	<u>Amounts Due in 2016-2017</u>		<u>Anticipated Interest Subsidy</u>
						<u>Principal</u>	<u>Interest</u>	
2010A	6.00%	2028	\$ 6,230,000	\$ -	\$ 6,230,000	\$ -	\$ 373,800	\$ 329,221
2010B	6.00%	2028	5,000,000	-	5,000,000	-	300,000	264,222
2010C	3.35%	2016-20	6,770,000	675,000	3,630,000	755,000	120,025	50,338
2013A	4.50%	2016-34	4,000,000	160,000	3,660,000	165,000	134,163	-
				<u>\$ 835,000</u>	<u>\$ 18,520,000</u>	<u>\$ 920,000</u>	<u>\$ 927,988</u>	<u>\$ 643,781</u>

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

Annual debt service requirements to maturity are as follows:

Years Ending June 30,	Principal	Interest	Total
2017	\$ 920,000	\$ 927,988	\$ 1,847,988
2018	930,000	898,326	1,828,326
2019	1,155,000	861,426	2,016,426
2020	1,290,000	815,438	2,105,438
2021	175,000	787,863	962,863
2022-2026	930,000	3,853,581	4,783,581
2027-2031	12,340,000	1,642,213	13,982,213
2032-2034	780,000	53,550	833,550
Total	<u>\$ 18,520,000</u>	<u>\$ 9,840,385</u>	<u>\$ 28,360,385</u>

The Series 2010A bonds were issued as “Qualified School Construction Bonds (QSCB)” pursuant to Section 54F of the Internal Revenue Code. The Series 2010B bonds were issued as “Qualified Zone Academy Bonds (QZAB)” pursuant to section 226(a) of the Taxpayer Relief Act of 1997. These designations provide that the District will be reimbursed by the federal government for any interest expense incurred on these issuances at an amount equal to the lesser of the amount of interest payable on each scheduled payment date or the amount of interest which would have been payable on such date if interest were determined at the applicable credit rate. The resulting effective interest rate for the Series 2010A and 2010B bonds at June 30, 2016 is 0.74%, respectively.

The Series 2010C bonds were issued as “Recovery Zone Economic Development Bonds (RZEDB)” under the American Recovery and Reinvestment Act (ARRA). This designation provides that the District will be reimbursed by the federal government for any interest expense incurred on this issuance equal to 45% of the amount of interest payable. The resulting effective interest rate for the Series 2010C bonds at June 30, 2016 is 1.68%.

Due to sequestration, the District anticipates receiving 93.2% of the original interest subsidy. The amounts listed as “Anticipated Interest Subsidy” reflects the reduction in subsidy due to sequestration.

The district has agreed to establish a sinking fund for redemption of the Series 2010A and 2010B bonds with required annual deposits of \$692,223 and \$555,556, respectively, beginning in 2020.

The following represents the required sinking fund deposits required for the Series 2010A and Series 2010B bonds. Actual payments may be reduced depending on investment earnings generated within the sinking fund.

Years Ending June 30,	Series 2010A	Series 2010B	Total
2020-2024	\$ 3,461,115	\$ 2,777,780	\$ 6,238,895
2025-2028	<u>2,768,892</u>	<u>2,222,224</u>	<u>4,991,116</u>
Total	<u>\$ 6,230,007</u>	<u>\$ 5,000,004</u>	<u>\$ 11,230,011</u>

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

B. Capital Leases

During fiscal year 2016, the District entered into a capital lease to finance the acquisition of computers, servers, and networking equipment. Annual lease payments are as follows:

Years Ending June 30,	Amount
2017	\$ 12,269
2018	12,269
Total Minimum Lease Payments	24,538
Less: Amount Representing Interest	(1,882)
Present Value of Minimum Lease Payments	\$ 22,656

C. Special Assessment Payable

Years Ending June 30,	Principal	Interest	Total
2017	\$ 124,915	\$ 63,072	\$ 187,987
2018	124,915	57,105	182,020
2019	124,915	51,139	176,054
2020	121,770	45,392	167,162
2021	106,193	40,064	146,257
2022-2026	381,447	142,033	523,480
2027-2031	307,363	64,020	371,383
2032-2034	166,410	7,611	174,021
Total	\$ 1,457,928	\$ 470,436	\$ 1,928,364

D. Severance Payable:

The Grand Forks Public School District No. 1 has adopted the following policy:

1. Requirements
 - a. By August 15th of the year of retirement, the professional staff member must attain the "rule of 85" for the Teachers' Fund for Retirement of North Dakota. The employee must submit verification from the Teachers' Fund for Retirement of North Dakota of the years of creditable service effective on the date of retirement from the Grand Forks Public Schools to documents that the employee meets the eligibility standards.
 - b. Professional staff members who are eligible must have completed ten years of full-time (or equivalent years of part-time) employment in this school district to be eligible for early retirement. Part-time is defined to mean halftime or more. The ten years of service may, with school board approval, include authorized health restoration leave not to exceed a total of two years. In addition, five of the ten years of service must be continuous, full-time service immediately preceding the date of retirement.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

2. Early Retirement Payment

- a. Early retirement payment as provided in the policy will be paid in four equal payments distributed over a four year period beginning with the effective date of retirement. The first early retirement payment will be paid when the early retirement is effective. The remaining three payments will be paid proportionately over the next three fiscal school years.
- b. The early retirement payment provided for in this policy is based on a proportion of the staff member's current annual salary at the time the application is made. The current annual salary is the contract amount a person receives on the District's salary schedule considering years of experience and level of education. The current annual salary used in making early retirement payment calculations shall not include amounts paid for extra duty assignments and/or summer employment.
- c. The amount of early retirement incentive shall be calculated using this formula:

$$\begin{array}{r}
 \underline{\hspace{1cm}}\% \times \\
 \text{Years} \\
 \text{Service} \\
 \text{District}(*1)
 \end{array}
 \times
 \begin{array}{r}
 \$\underline{\hspace{1cm}} \\
 \text{Final} \\
 \text{Contract} \\
 \text{Amount}
 \end{array}
 =
 \begin{array}{r}
 \$\underline{\hspace{1cm}} \times \\
 \text{Incentive} \\
 \text{Amount}
 \end{array}
 \times
 \begin{array}{r}
 \underline{\hspace{1cm}}\% = \\
 \text{Reduction} \\
 \text{Factor} \\
 \text{Schedule}(*2)
 \end{array}
 =
 \begin{array}{r}
 \$\underline{\hspace{1cm}} \\
 \text{Amount} \\
 \text{Employee} \\
 \text{Receives}
 \end{array}$$

(*1) The percentage granted for years of service in the Grand Forks Public Schools will be as follows: 80% for 10-15 years of service; 85% for 16-20 years of service; 90% for 21-25 years of service; 95% for 26-30 years of service and 100% for 31 or more years of service.

(*2) Year of Eligibility is defined as the year when the employee meets the rule of 85 for the Teachers Fund For Retirement. If the employee applies for the Early Retirement after his/her first year of eligibility, the employee will receive a reduced incentive amount, as determined by the following schedule:

<u>Year of Retirement</u>	<u>Reduction Factor</u>
Year of Eligibility	100% of Incentive
Year of Eligibility + 1	90% of Incentive
Year of Eligibility + 2	80% of Incentive
Year of Eligibility + 3	70% of Incentive
Year of Eligibility + 4	60% of Incentive
Year of Eligibility + 5	50% of Incentive
Year of Eligibility + 6	40% of Incentive
Year of Eligibility + 7	30% of Incentive
Year of Eligibility + 8	20% of Incentive
Year of Eligibility + 9	10% of Incentive
Year of Eligibility + 10	0% of Incentive

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

Following is a summary of the early retirement payable:

<u>Early Retirement Incentive</u>	<u>Current Amount</u>	<u>Long-Term Amount</u>
2014		
Fiscal Year Payable		
2017	\$ 229,171	\$ -
2015		
Fiscal Year Payable		
2017	361,096	-
2018	-	361,096
2016		
Fiscal Year Payable		
2017	403,632	-
2018	-	403,632
2019	-	<u>403,632</u>
Totals	<u>\$ 993,899</u>	<u>\$ 1,168,360</u>

NOTE 7 DEFINED BENEFIT PENSION PLANS – STATEWIDE

Substantially, all employees of the District are required by state law to belong to pension plans administered by Teacher’s Fund for Retirement (TFFR) or Individual Retirement Accounts and tax sheltered annuities.

Disclosures relating to these plans follow:

North Dakota Teacher's Fund For Retirement

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

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

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

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

Pension Benefits

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

Tier 1 Grandfathered

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

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

Tier 1 Non-grandfathered

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

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

Tier 2

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

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

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

Death and Disability Benefits

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

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

Contributions

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

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

Pension Costs

At June 30, 2016, the District reported a liability of \$91,366,606 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 6.985988% which was a decrease of .21% from its proportion measured as of June 30, 2014

For the year ended June 30, 2016, the Employer recognized pension expense of \$5,714,217. At June 30, 2016, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 598,722	\$ -
Changes in actuarial assumptions	10,258,902	-
Difference between projected and actual investment earnings	-	1,030,291
Changes in proportion	-	2,080,718
Contributions paid to TFFR subsequent to the measurement date	5,850,866	-
Total	\$ 16,708,490	\$ 3,111,009

\$5,850,866 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 ending 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 ending June 30:	Pension Expense Amount
2017	\$ 701,057
2018	701,057
2019	701,057
2020	2,780,001
2021	1,478,366
Thereafter	1,385,077

Actuarial Assumptions

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	4.25% to 14.50%, varying by service, including inflation and productivity
Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

For active and inactive members, mortality rates were based on the RP-2014 Employee Mortality Table, projected generationally using Scale MP-2014. For healthy retirees, mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table set back one year, multiplied by 50% for ages under 75 and grading up to 100% by age 80, projected generationally using Scale MP-2014. For disabled retirees, mortality rates were based on the RP-2014 Disabled Mortality Table set forward four years.

The actuarial assumptions used were based on the results of an actuarial experience study dated April 30, 2015. They are the same as the assumptions used in the July 1, 2015, funding actuarial valuation for TFFR.

As a result of the April 30, 2015 actuarial experience study, the TFFR Board adopted several assumption changes, including the following:

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	57.00%	7.53%
Global Fixed Income	22.00%	1.28%
Global Real Assets	20.00%	5.38%
Cash Equivalents	1.00%	0.00%

Discount rate

The discount rate used to measure the total pension liability was 7.75% percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2015, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015. The discount rate used to measure the total pension liability changed from 8% to 7.75% based on the investment return assumption change as a result of the April 30, 2015 actuarial experience study.

Pension Liability Sensitivity

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:

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
	6.75%	7.75%	8.75%
School's proportionate share of the TFFR net pension liability:	\$ 120,745,291	\$ 91,366,606	\$ 66,865,404

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.nd.gov/rio/sib/publications/cafr/default.htm

Individual Retirement Accounts And Tax Sheltered Annuities (IRA and TSA)

The School District will provide matching contributions up to 5% of the non-teacher annual wages to an individual retirement account or tax sheltered annuity. The School District's matching contributions to the IRA's and TSA's for the fiscal years ended June 30 2016, 2015 and 2014, were \$555,175, \$534,764 and \$523,399, respectively.

NOTE 8 COMMITMENTS AND CONTINGENCIES

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Grant Programs:

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2016, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Tuition from Grand Forks Air Force Base PSD No. 140:

The Grand Forks Air Force Base Public School District No. 140 contracts with the Grand Forks Public School District to provide educational services for the pupils that reside in the Grand Forks Air Force Base District. The contract amount is tied to the amount of federal aid and state aid received for those students. The amount recorded as tuition is based in part, on an estimate of revenue to be received from federal aid, and due to the estimates, actual results could differ from those estimates.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

NOTE 9 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The District carries commercial insurance for risks of loss, including workers' compensation and employee health and accident insurance.

The School District has agreed to partially self-insure claims for health insurance of District employees to a maximum liability of \$100,000 per employee and an aggregate liability of \$7,595,094. Self-insurance activities are accounted for in the Proprietary Fund. Changes in claims payable were as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Claims Payable, July 1	\$ 791,002	\$ 516,693	\$ 513,112
Incurred Claims	6,101,192	6,411,980	6,367,596
Claims Paid	<u>(5,836,972)</u>	<u>(6,137,671)</u>	<u>(6,364,015)</u>
Claims Payable, June 30	<u>\$ 1,055,222</u>	<u>\$ 791,002</u>	<u>\$ 516,693</u>

The State Bonding Fund currently provides the District with blanket fidelity bond coverage with no limit of liability. The State Bonding Fund does not currently charge any premium for this coverage.

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

NOTE 10 LEASE COMMITMENTS

The District leases classroom and office space for the Headstart program in Grafton, North Dakota from the North Dakota Department of Human Services, Development Center. The current building lease expired June 30, 2017. The effective annual lease payment is \$11,908 per year.

The District leases warehouse space for the Buildings and Ground's storage from G-B Corporation. The current warehouse lease runs from October 15, 2014 to October 14, 2019. The annual lease payment is \$23,500 per year.

The District renewed the lease of a building from the North Dakota School for the Blind as of June 30, 2015 for an additional five years. The building lease can be canceled at the end of each year. The effective annual lease payment is \$151,988 per year.

The District paid \$33,950 to the City of Grand Forks' Parking Authority for the lease of 97 parking spaces in a downtown parking ramp for the use of Central High School staff and students during the 2015-2016 school term.

The District leases a parking lot from United Lutheran Church. The term of the lease is for five years, which expires on August 31, 2018. The District has the right to terminate the lease at the end of any year within this lease term. The effective annual lease payment was \$8,000 per year.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

NOTE 11 NON-MONETARY 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 \$212,796. The amount of commodities used during the fiscal year was \$212,796.

NOTE 12 FUND BALANCES

A. Classifications

At June 30, 2016, a summary of the governmental fund balance classifications are as follows:

	<u>General Fund</u>	<u>Special Assessment Fund</u>	<u>Food Service</u>	<u>Building Fund</u>	<u>Total</u>
Nonspendable:					
Inventory	\$ 232,635	\$ -	\$ 80,839	\$ -	\$ 313,474
Assigned:					
Food Service	-	-	1,628,658	-	1,628,658
Severance & Sick Leave	993,899	-	-	-	993,899
Unassigned	<u>18,632,580</u>	<u>(639,922)</u>	<u>-</u>	<u>(1,734,793)</u>	<u>16,257,865</u>
 Total Fund Balances	 <u>\$ 19,859,114</u>	 <u>\$ (639,922)</u>	 <u>\$ 1,709,497</u>	 <u>\$ (1,734,793)</u>	 <u>\$ 19,193,896</u>

NOTE 13 DEFICIT FUND BALANCES

The following governmental funds had a deficit fund balance as of June 30, 2016:

<u>Fund</u>	<u>Balance at 06/30/16</u>
Building Fund	\$ (1,734,793)
Special Assessment Fund	<u>(639,922)</u>
 Total Fund Balance Deficits	 <u>\$ (2,374,715)</u>

The total fund balance deficit of \$2,374,715 will be reduced by future property tax levies and transfers.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

NOTE 14 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2016, is as follows:

Due to/from other funds:

Receivable	Payable	Amount
General Fund	Special Assessment Fund	\$ 653,324
General Fund	Building Fund	1,776,720
		\$ 2,430,044

The purpose of the interfund loan is to cover the cash shortages in the special assessment and building funds.

NOTE 15 RECLASSIFICATION

Certain reclassifications have been made to the 2015 financial statements in order to conform with the 2016 presentation.

NOTE 16 NEW PRONOUNCEMENTS

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This Statement is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2016

GASB Statement No. 80, *Blending Requirements for Certain Component Units, and Amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

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

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

NOTE 17 SUBSEQUENT EVENTS

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through November 23, 2016, which is the date these financial statements were available to be issued.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Fund 10</u>	<u>Fund 61</u>	<u>Fund 62</u>	<u>Fund 65</u>	<u>General Fund Actual</u>	<u>Original and Final Budget</u>	<u>Over (Under) Budget</u>
Revenues							
Property Taxes	\$ 16,051,823	\$ -	\$ -	\$ -	\$ 16,051,823	\$ 16,222,000	\$ (170,177)
Payments in Lieu of Taxes	561,309	-	-	-	561,309	600,000	(38,691)
Other Local Sources	321,256	-	11,730	224,978	557,964	81,313	476,651
Intergovernmental	73,213,430	-	-	523,937	73,737,367	73,267,112	470,255
Charges for Services	4,074,455	312,364	226,337	-	4,613,156	4,148,000	465,156
Contributions and Donations	23,774	-	11,400	-	35,174	23,774	11,400
Investment Income	133,523	-	-	-	133,523	120,000	13,523
Total Revenues	<u>94,379,570</u>	<u>312,364</u>	<u>249,467</u>	<u>748,915</u>	<u>95,690,316</u>	<u>94,462,199</u>	<u>1,228,117</u>
Expenditures							
Instruction:							
Regular	44,726,025	-	-	-	44,726,025	44,775,529	(49,504)
Special Education	13,224,383	-	-	-	13,224,383	12,696,472	527,911
Career Technical Education	3,260,538	-	-	462,886	3,723,424	3,251,197	472,227
Headstart	1,327,143	-	-	-	1,327,143	1,341,433	(14,290)
Total Instruction	<u>62,538,089</u>	<u>-</u>	<u>-</u>	<u>462,886</u>	<u>63,000,975</u>	<u>62,064,631</u>	<u>936,344</u>
Support Services:							
Pupil and Instructional Staff Services	7,482,561	-	-	-	7,482,561	7,459,182	23,379
Headstart	318,973	-	-	-	318,973	302,199	16,774
Special Education	2,387,738	-	-	-	2,387,738	2,461,082	(73,344)
Career Technical Education	420,798	-	-	85,071	505,869	455,375	50,494
General Administrative Services	1,033,271	-	-	144,152	1,177,423	1,049,310	128,113
School Administrative Services	5,149,861	-	-	-	5,149,861	5,201,791	(51,930)
Business Services	1,869,413	-	-	-	1,869,413	1,964,329	(94,916)
Operations and Maintenance	7,744,754	-	-	-	7,744,754	7,531,713	213,041
Pupil Transportation Services	1,190,731	-	-	-	1,190,731	1,142,252	48,479
Extracurricular	1,961,639	802,301	232,152	5,311	3,001,403	2,163,694	837,709
Food Services	14,298	-	-	-	14,298	17,986	(3,688)
Community Services	371,170	-	-	-	371,170	375,325	(4,155)
Capital Outlay	2,159,510	138	7,748	15,414	2,182,810	1,773,331	409,479
Debt Service:							
Principal	12,288	-	-	-	12,288	-	12,288
Total Support Services	<u>32,117,005</u>	<u>802,439</u>	<u>239,900</u>	<u>249,948</u>	<u>33,409,292</u>	<u>31,897,569</u>	<u>1,511,723</u>
Total Expenditures	<u>94,655,094</u>	<u>802,439</u>	<u>239,900</u>	<u>712,834</u>	<u>96,410,267</u>	<u>93,962,200</u>	<u>2,448,067</u>
Revenues Over(Under) Expenditures	<u>(275,524)</u>	<u>(490,075)</u>	<u>9,567</u>	<u>36,081</u>	<u>(719,951)</u>	<u>499,999</u>	<u>(1,219,950)</u>
Other Financing Sources (Uses)							
Proceeds from Long Term Debt	34,944	-	-	-	34,944	-	34,944
Transfers In	-	490,075	-	-	490,075	-	490,075
Transfers Out	(490,075)	-	-	-	(490,075)	(500,000)	9,925
Total Other Financing Sources (Uses)	<u>(455,131)</u>	<u>490,075</u>	<u>-</u>	<u>-</u>	<u>34,944</u>	<u>(500,000)</u>	<u>534,944</u>
Net Change in Fund Balances	<u>(730,655)</u>	<u>-</u>	<u>9,567</u>	<u>36,081</u>	<u>(685,007)</u>	<u>(1)</u>	<u>(685,006)</u>
Fund Balances, Beginning of Year	<u>20,163,953</u>	<u>-</u>	<u>57,449</u>	<u>322,719</u>	<u>20,544,121</u>	<u>20,544,121</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 19,433,298</u>	<u>\$ -</u>	<u>\$ 67,016</u>	<u>\$ 358,800</u>	<u>\$ 19,859,114</u>	<u>\$ 20,544,120</u>	<u>\$ (685,006)</u>

See Note to the Budgetary Comparison Schedule

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTE TO THE BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING:

The District's board follows the procedures established by North Dakota law for the budgetary process. The governing body of each School District, annually on or before the last day of July, must levy taxes. The governing body of the School District may amend its tax levy and budget for the current fiscal year on or before the tenth day of October of each year. Taxes for School District purposes must be based upon an itemized budget statement which must show the complete expenditure by program of the District for the current fiscal year and the sources of the revenue from which it is to be financed. The school board, in levying taxes, is limited by the amount necessary to be raised for the purpose of meeting the appropriations included in the school budget of the current fiscal year, and the sum necessary to be provided as an interim fund, together with a tax sufficient in amount to pay the interest on the bonded debt of the District and to provide a sinking fund to pay and discharge the principal thereon at maturity.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The administration prepares the District's budget. The budget includes proposed expenditures and the means of financing them. The budget is prepared on the modified accrual basis of accounting.
2. The Board reviews the budget, may make revisions, and adopts the final budget on or before September 30 of each year. The budget is then filed with the county auditor by October 10 of each year.
3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10 of each year. The budget amounts shown in the financial statements are the final authorized amounts.
4. All appropriations lapse at the close of the Districts' fiscal year. The balance of the appropriation reverts back to each respective fund and is available for future appropriation.

Expenditures in the general fund were over budget by \$2,448,067 for the year ended June 30, 2016.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF DISTRICT'S CONTRIBUTIONS TO TFFR RETIREMENT PLAN
LAST TEN YEARS

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2016	\$ 5,850,866	\$ (5,850,866)	\$ -	\$ 45,793,480	12.78%
2015	5,478,826	(5,478,826)	-	42,971,154	12.75%

The amounts presented for each fiscal year were determined as of the District's year end which is June 30th.

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for prior years is not available.

See Note to the Required Supplementary Information

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST TEN YEARS (PRESENTED PROSPECTIVELY)

For the Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	District's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	6.985988%	\$ 91,366,606	\$ 42,971,154	212.62%	62.10%
2015	7.195464%	75,395,706	41,737,522	180.64%	66.60%

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30 of the previous fiscal year.

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for prior years is not available.

See Note to the Required Supplementary Information

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 CHANGES OF ASSUMPTIONS

TFFR

Amounts reported in 2016 reflect actuarial assumption changes effective July 1, 2015 based on the results of an actuarial experience study completed in 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.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

To the Board of Education
Grand Forks Public School District No. 1
Grand Forks, 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 Grand Forks Public School District No. 1 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, and have issued our report thereon dated November 23, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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.

Compliance and Other Matters

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

Purpose of this Report

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



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

November 23, 2016



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Education
Grand Forks Public School District No. 1
Grand Forks, North Dakota

Report on Compliance for Each Major Federal Program

We have audited Grand Forks Public School District No. 1's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Grand Forks Public School District No. 1 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

November 23, 2016

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass- Through Number	Federal CFDA Number	Passed- Through to Subrecipients	Amount
<u>U.S. Department of Education</u>				
Direct Programs:				
Indian Elementary and Secondary School Assistance	N/A	84.060A		\$ 33,872
Total Direct				<u>33,872</u>
Indirect Programs:				
Passed Through North Dakota Department of Public Instruction:				
Adult Education State Grant Program	N/A	84.002		30,000
EL Civics	N/A	84.002A		9,452
21st Century Community Learning Centers	N/A	84.287	\$ 93,017	667,794
SPDG	N/A	84.323		51,027
Title III: Language Instruction for LEP & Immigrant	N/A	84.365A		94,598
Homeless Children and Youth	N/A	84.196		4,348
State Assessments and Related Activities	N/A	84.369		4,576
Title II, Part A	N/A	84.367		813,930
<i>Title I, Part A Cluster:</i>				
Title I	N/A	84.010		2,404,607
Passed Through North Dakota Department of Public Instruction:				
<i>Special Education Cluster:</i>				
Special Education Grants to States	N/A	84.027		1,942,447
Special Education Grants to States - Discretionary	N/A	84.027		10,773
Special Education Preschool Grants	N/A	84.173		126,376
<i>Total Special Education Cluster</i>				<u>2,079,596</u>
Passed Through North Dakota Department of Career & Technical Education				
Carl Perkins	N/A	84.048A		190,208
Total Indirect				<u>6,350,136</u>
Total U.S. Department of Education				<u>6,384,008</u>

See Notes to the Schedule of Expenditures of Federal Awards

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass- Through Number	Federal CFDA Number	Passed- Through to Subrecipients	Amount
<u>U.S. Department of Agriculture</u>				
Indirect Programs:				
Passed Through North Dakota Department of Public Instruction				
Fresh Fruits and Vegetables	N/A	10.582		117,989
Child and Adult Care Food Program	N/A	10.558		150,719
<i>Child Nutrition Cluster:</i>				
School Breakfast Program	N/A	10.553		429,718
National School Lunch Program	N/A	10.555		1,235,817
Commodity Distribution (Nonmonetary Assistance)	N/A	10.555		212,796
Summer Food Program	N/A	10.559		23,274
<i>Total Child Nutrition Cluster</i>				1,901,605
Total U.S. Department of Agriculture				2,170,313
<u>U.S. Department of Transportation</u>				
Indirect Programs:				
Passed through North Dakota Department of Transportation				
State and Community Highway Safety	N/A	20.600		9,000
Total U.S. Department of Transportation				9,000
<u>National Endowment for the Humanities</u>				
Indirect Programs:				
Passed through North Dakota Council on the Arts				
Art Partnership Agreements	N/A	45.025		763
Total U.S. Department of Interior				763
<u>U.S. Department of Health and Human Services</u>				
Direct Programs:				
Head Start	N/A	93.600		2,483,672
Refugee and Entrant Assistance Grant	N/A	93.576		54,784
Total U.S. Department of Health and Human Services				2,538,456
				\$ 11,102,540
Reconciliation of Schedule of Expenditures of Federal Awards to the Financial Statements:				
Intergovernmental Revenue:				\$ 76,102,568
State Funded Revenues:				65,000,028
Federal Funded Revenues:				\$ 11,102,540

See Notes to the Schedule of Expenditures of Federal Awards

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Grand Forks Public School District No. 1 under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Grand Forks Public School District No. 1, it is not intended to and does not present the financial position, change in net position, or cash flows of Grand Forks Public School District No. 1.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Grand Forks Public School District No. 1 has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 NON-MONETARY TRANSACTIONS

The District receives commodities through the food distribution program and the assistance is valued at the fair value of the commodities received and disbursed. During the year the District received \$212,796 for commodities and used \$212,796 in commodities.

NOTE 4 SUBRECIPIENT TRANSACTIONS

The District acts as the fiscal agent for the 21st Century Community Learning Centers grant. Funds that have been provided to other Districts are as follows:

Emerado	\$ 70,669
Lutheran Social Services	<u>22,348</u>
Total	<u>\$ 93,017</u>

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Non-compliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

yes no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.367
10.553, 10.555, 10.559

Title II, Part A
Child Nutrition

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

yes no

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

There are no findings which are required to be reported in this section.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no findings which are required to be reported in this section.

GRAND FORKS PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

There are no findings which are required to be reported under this section.