

**HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
HATTON, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
ROSTER OF SCHOOL OFFICIALS
JUNE 30, 2016

Thomas Erickson	President
Dennis Heskin	Vice President
Toby Handy	Board Member
Mindi Mehus	Board Member
Brad Enger	Board Member
Kevin Rogers	Superintendent
Roxanne Phipps	Business Manager



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Hatton Eielson Public School District No. 7
Hatton, 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 Hatton Eielson Public School District No. 7 (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Hatton Eielson Public School District No. 7'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 of 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 Hatton Eielson Public School District No. 7 as of June 30, 2016, and the respective changes in financial position and where applicable, its cash flows thereof for the year then ended, in conformity 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 the TFFR Pension 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 roster of school officials on page 1 is presented for additional analysis and is not a required part of the basic financial statements. The roster of school officials 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 September 16, 2016, on our consideration of Hatton Eielson Public School District No. 7's internal control over financial reporting and 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 the 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 Hatton Eielson Public School District No. 7's internal control over financial reporting and compliance.



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

September 16, 2016

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2016

The discussion and analysis of Hatton Eielson 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

- The ending fund balance for the District Funds were as follows:

	<u>06/30/16</u>	<u>06/30/15</u>
• General	\$ 761,544	\$ 654,629
• Special Reserve	77,010	54,755
• Capital Projects	77,056	8,267
• Food Service	497	2,278

- The General Fund had \$2,559,157 in revenue, which primarily consisted of the state and federal funding, property tax levies, and state and federal grants. There was \$2,452,288 in expenditures, which primarily consisted of salaries, transportation, materials and supplies for instruction.
- The Special Reserve Fund had \$22,301 in revenue, consisting of property tax levies. A transfer of \$46 to the General Fund was completed.
- The Capital Projects Fund had \$74,400 in revenue, consisting of property tax levies. There was \$5,611 in expenditures, consisting of improvements to the science rooms project.
- The Food Service Fund had \$111,031 in revenue, which consisted of sales of meals and federal reimbursement. There was \$112,812 in expenditures, which consisted of salaries, food, and supplies.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets, deferred inflows/outflows and liabilities, with the difference between reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed asset purchases and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all North Dakota public school districts. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. There are currently no activities classified as proprietary funds in the District. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11-15 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-28 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred inflows exceeded liabilities and deferred outflows by \$462,764 as of June 30, 2016.

A large portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position

The following is a comparison of assets, liabilities and net position as presented in the current year to those presented in the prior year.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
Assets		
Current Assets	\$ 980,112	\$ 812,967
Noncurrent Assets	1,497,785	1,585,287
Total Assets	2,477,897	2,398,254
Deferred Outflows of Resources		
Cost Sharing Defined Benefit Plan	423,495	241,130
Total Deferred Outflows of Resources	423,495	241,130
Liabilities		
Current Liabilities	35,000	58,828
Noncurrent Liabilities	2,354,721	1,910,473
Total Liabilities	2,389,721	1,969,301
Deferred Inflows of Resources		
Cost Sharing Defined Benefit Plan	48,907	216,557
Total Deferred Inflows of Resources	48,907	216,557
Net Position		
Net Investment in Capital Assets	1,497,785	1,585,287
Restricted	160,948	63,022
Unrestricted (Deficit)	(1,195,969)	(1,194,783)
Total Net Position	\$ 462,764	\$ 453,526

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

The following presents comparative changes in net position for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Revenues		
Program Revenues		
Charges for Services	\$ 151,520	\$ 179,441
Operating Grants and Contributions	193,536	191,480
General Revenues		
Taxes	653,724	663,421
Federal and State Aid not Restricted to a Specific Function	1,737,289	1,667,490
Other Revenues	15,313	7,584
Interest income	10,302	3,392
Total Revenues	<u>2,761,684</u>	<u>2,712,808</u>
Expenses		
Instructional Support Services	59,259	217,194
Operations and Maintenance	831,605	755,453
Transportation	81,194	93,240
Regular Instruction	1,360,923	1,228,170
Special Education	139,532	154,284
Vocational Education	132,603	147,673
Extra-Curricular Activities	147,330	90,589
Total Expenses	<u>2,752,446</u>	<u>2,686,603</u>
Change in Net Position	<u>9,238</u>	<u>26,205</u>
Net Position - Beginning	453,526	2,337,914
GASB 68 & 71 Adjustment	<u>-</u>	<u>(1,910,539)</u>
Net Position - Beginning as Restated	<u>453,526</u>	<u>427,321</u>
Net Position - Ending	<u>\$ 462,764</u>	<u>\$ 453,526</u>

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

Capital Assets

As of June 30, 2016, the District had \$1,497,785 invested in capital assets. Following are the balances as of June 30, 2016:

	Balance 06/30/15	Additions	Disposals	Transfer	Balance 06/30/16
Governmental Activities					
Land	\$ 3,185	\$ -	\$ -	\$ -	\$ 3,185
Buildings	2,193,033	-	-	-	2,193,033
Equipment	597,634	-	-	-	597,634
Total	<u>2,793,852</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,793,852</u>
Less Accumulated Depreciation					
Buildings	926,257	38,604	-	-	964,861
Equipment	282,308	48,898	-	-	331,206
Total	<u>1,208,565</u>	<u>87,502</u>	<u>-</u>	<u>-</u>	<u>1,296,067</u>
Net Capital Assets for					
Governmental Activities	<u>\$ 1,585,287</u>	<u>\$ (87,502)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,497,785</u>

Comments on Budget Comparisons

- The District's total General Fund revenues for the fiscal year ended June 30, 2016, were \$2,559,157.
- General Fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$94,414 more than budget or approximately 3.83%.
- The District's total General Fund expenditures for the fiscal year ended June 30, 2016, were \$2,452,288.
- General fund budget expenditures to actual expenditures varied slightly from line item to line item with the ending actual balance being \$69,689 less than budget or approximately 2.76%.

BUDGETARY IMPLICATIONS

In North Dakota, the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District's overall budget. Significant Board action that impacted the finances include contract approval for all employees, completion of the 1962 window replacement project; painting four 1908 classrooms, stairway walls and old gym; the start of a 10,000 gallon fuel replacement project; the start of a flagpole replacement project; memberships in associations and agreements.

Hatton Eielson Public School received a federal grant titled Federal REAP (GAPS). This grant was awarded in the amount of \$21,272. This grant helped supplement our Title I program with teacher benefits and professional development costs for teachers and administration.

Contacting the District's Financial Management

Questions regarding this report should be directed to Kevin Rogers, Superintendent (701) 543-3456 or to Roxanne Phipps, Business Manager (701) 543-3456 or by mail at PO Box 200, Hatton, ND 58240.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
STATEMENT OF NET POSITION
AS OF JUNE 30, 2016

	Governmental Activities
ASSETS	
Cash and Investments	\$ 856,399
Federal Receivables	86,641
Property Taxes Receivable	37,072
Total Current Assets	980,112
Capital Assets	
Land-not being depreciated	3,185
Buildings	2,193,033
Equipment	597,634
Less Accumulated Depreciation	(1,296,067)
Total Capital Assets, Net of Depreciation	1,497,785
TOTAL ASSETS	2,477,897
DEFERRED OUTFLOWS OF RESOURCES	
Cost Sharing Defined Benefit Pension Plan -TFFR	423,495
TOTAL DEFERRED OUTFLOWS OF RESOURCES	423,495
LIABILITIES	
Payroll Deductions	35,000
Total Current Liabilities	35,000
Long-Term Liabilities	
Compensated Absences	4,885
Net Pension Liability	2,349,836
Total Non-Current Liabilities	2,354,721
TOTAL LIABILITIES	2,389,721
DEFERRED INFLOWS OF RESOURCES	
Cost Sharing Defined Benefit Pension Plan-TFFR	48,907
TOTAL DEFERRED INFLOWS OF RESOURCES	48,907
NET POSITION	
Net Investment in Capital Assets	1,497,785
Restricted for Building Projects	81,950
Restricted for Special Reserve	78,501
Restricted for School Lunch	497
Unrestricted (Deficit)	(1,195,969)
TOTAL NET POSITION	\$ 462,764

See Notes to the Financial Statements

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
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				
Instructional Support Servies	\$ 59,259	\$ -	\$ 75,736	\$ 16,477
Operations and Maintenance	831,605	59,267	-	(772,338)
Transportation	81,194	-	57,175	(24,019)
Regular Instruction	1,360,923	92,253	-	(1,268,670)
Special Education	139,532	-	31,122	(108,410)
Vocational Education	132,603	-	29,503	(103,100)
Extra-Curricular Activities	147,330	-	-	(147,330)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 2,752,446	\$ 151,520	\$ 193,536	(2,407,390)
GENERAL REVENUES				
Property Taxes, Levied for General Purposes				557,054
Property Taxes, Levied for Special Reserve				22,270
Property Taxes, Levied for Capital Projects				74,400
Federal and State Aid not Restricted to a Specific Function				1,737,289
Interest Income				10,302
Other Revenues				15,313
TOTAL GENERAL REVENUES				2,416,628
Change in Net Position				9,238
Net Position-Beginning				453,526
Net Position-Ending				\$ 462,764

See Notes to the Financial Statements

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF JUNE 30, 2016

	General Fund	Special Reserve Fund	Capital Projects Fund	Food Service Fund	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 703,961	\$ 76,537	\$ 75,404	\$ 497	\$ 856,399
Federal Receivables	80,095	-	6,546	-	86,641
Property Taxes Receivable	35,108	1,964	-	-	37,072
TOTAL ASSETS	\$ 819,164	\$ 78,501	\$ 81,950	\$ 497	\$ 980,112
LIABILITIES					
Payroll Deductions	\$ 35,000	\$ -	\$ -	\$ -	\$ 35,000
TOTAL LIABILITIES	35,000	-	-	-	35,000
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Delinquent Taxes	22,620	1,491	4,894	-	29,005
TOTAL DEFERRED INFLOWS OF RESOURCES	22,620	1,491	4,894	-	29,005
FUND BALANCES					
Restricted for Building Projects	-	-	77,056	-	77,056
Restricted for Special Reserve	-	77,010	-	-	77,010
Assigned for School Lunch	-	-	-	497	497
Unassigned	761,544	-	-	-	761,544
TOTAL FUND BALANCES	761,544	77,010	77,056	497	916,107
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 819,164	\$ 78,501	\$ 81,950	\$ 497	\$ 980,112

See Notes to the Financial Statements

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

Total fund balances - governmental funds		\$ 916,107
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Land	\$ 3,185	
Buildings	2,193,033	
Equipment	597,634	
Less: accumulated depreciation	(1,296,067)	
		1,497,785
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.		
		374,588
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 deferred in the funds.		
		29,005
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.		
Net Pension Liability		(2,349,836)
Compensated Absences		(4,885)
Total net position - governmental activities		\$ 462,764

See Notes to the Financial Statements

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Governmental Fund Types				Total
	General Fund	Special Reserve Fund	Capital Projects Fund	Food Service Fund	
REVENUES					
Local Property Tax Levies	\$ 562,259	\$ 22,270	\$ 74,400	\$ -	\$ 658,929
Other Local and County Revenues	120,464	31	-	56,640	177,135
Revenue from State Sources	1,808,787	-	-	1,112	1,809,899
Revenue from Federal Sources	67,647	-	-	53,279	120,926
TOTAL REVENUES	<u>2,559,157</u>	<u>22,301</u>	<u>74,400</u>	<u>111,031</u>	<u>2,766,889</u>
EXPENDITURES					
Current:					
Regular Instruction	1,212,295	-	-	-	1,212,295
Special Education	139,532	-	-	-	139,532
Vocational Education	132,603	-	-	-	132,603
Transportation	48,087	-	-	-	48,087
Extra-Curricular Activities	147,330	-	-	-	147,330
Instructional Support Services	59,259	-	-	-	59,259
Operations and Maintenance	713,182	-	5,611	112,812	831,605
TOTAL EXPENDITURES	<u>2,452,288</u>	<u>-</u>	<u>5,611</u>	<u>112,812</u>	<u>2,570,711</u>
Excess (deficiency) of Revenues over (under) Expenditures	<u>106,869</u>	<u>22,301</u>	<u>68,789</u>	<u>(1,781)</u>	<u>196,178</u>
Other Financing Sources (Uses)					
Transfer to other Funds	-	(46)	-	-	(46)
Transfer from other Funds	46	-	-	-	46
Total other financing sources (Uses)	<u>46</u>	<u>(46)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>106,915</u>	<u>22,255</u>	<u>68,789</u>	<u>(1,781)</u>	<u>196,178</u>
FUND BALANCE, BEGINNING OF YEAR	<u>654,629</u>	<u>54,755</u>	<u>8,267</u>	<u>2,278</u>	<u>719,929</u>
FUND BALANCE, END OF YEAR	<u>\$ 761,544</u>	<u>\$ 77,010</u>	<u>\$ 77,056</u>	<u>\$ 497</u>	<u>\$ 916,107</u>

See Notes to the Financial Statements

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Total net change in fund balances - governmental funds \$ 196,178

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 the estimated useful lives as depreciation expense.

Capital Outlay	\$ -	
Depreciation Expense	<u>(87,502)</u>	
		(87,502)

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 items consisted of the (increase)/decrease in:

Early Retirement	-	
Compensated Absences	<u>(684)</u>	
		(684)

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

Net change in unavailable property tax revenue	(5,205)
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Changes in deferred outflows and inflows of resources related to net pension liability	350,015
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Changes in net pension liability	<u>(443,564)</u>
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Change in net position - governmental activities	<u><u>\$ 9,238</u></u>
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See Notes to the Financial Statements

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
STATEMENT OF NET POSITION – FIDUCIARY
AS OF JUNE 30, 2016

	<u>Student Activities Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 30,811
Total Assets	<u>\$ 30,811</u>
<u>LIABILITIES</u>	
Due to student groups	\$ 30,811
Total Liabilities	<u>\$ 30,811</u>

See Notes to the Financial Statements

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Hatton Eielson Public School District No. 7 (The District), in accordance with generally accepted government accounting standards, has developed criteria to determine whether outside agencies with activities which benefit the District should be included within its financial reporting entity. The criteria include, but are not limited to, whether the District exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of public service and special financing relationships. The District has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a component unit in the District's financial statements.

Basis of Presentation

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

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

Government-wide Financial Statements

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

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 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. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Position at the fund financial statement level.

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

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

Program revenues include charges to recipients for goods or services offered by the program, grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the District.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
AS OF JUNE 30, 2016

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 and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources and uses of current financial resources.

The 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.

Major revenue sources susceptible to accrual under the modified accrual basis include: property taxes, intergovernmental revenues and investment income.

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

Separate fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Typically, aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements; currently, however, all funds of the District are considered major in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide financial statements.

When fund balance resources are available for use, it is the government's policy to use restricted, committed, assigned, and unassigned resources as they are needed in that order.

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 and liabilities. The District's major governmental funds consist of the following:

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 Reserve Fund

This fund is used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Fund

This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
AS OF JUNE 30, 2016

Food Service

This fund is used to account for the financial resources associated with the District's hot lunch program.

Non-major Governmental Funds

Typically, aggregated information for the non-major governmental funds is reported in a single column in the fund financial statements; currently, however, all funds of the District are considered major in the fund financial statements so there are no non-major funds in the District's financial statements.

Fiduciary Funds

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

This fund accounts for the financial transactions related to the District's student activity programs.

Revenues-Exchange and Non-Exchange Transactions

Exchange transactions are transactions in which each party gives and receive 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 are 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.

Revenue sources susceptible to accrual include: property taxes, intergovernmental revenues and investment income.

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.

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. See Note 4 for more details.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
AS OF JUNE 30, 2016

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 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 as well as amounts paid to the plans after the measurement date. See Note 4 for more details.

Budgets and Budgetary Accounting

The Board of Education adopts an “appropriated budget” on a basis consistent with GAAP for the General Fund, Special Reserve Fund, Capital Projects Fund, and Food Service Fund.

The District follows these procedures in establishing the budgetary data reflected in the required supplementary information:

1. The superintendent prepares the School District budget. The budget includes proposed expenditures and the means of financing them. The budget is prepared on a modified accrual basis.
2. The School Board reviews the budget, makes any necessary revisions, and approves the final budget on or before August 15. The final budget must be filed with the county auditor by August 25 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 schedule are the final authorized amounts as revised.
4. The balance of each appropriation becomes a part of the unappropriated balance at year end.

Cash and Cash Equivalents

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

Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District has established a capitalization threshold of \$5,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the District-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are typically sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 35 to 50 years for buildings and 10 years for equipment.

Capital assets not being depreciated include land and construction in progress. The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
AS OF JUNE 30, 2016

Property taxes

Property tax levies are set by the School Board each year and are certified to Grand Forks, Traill and Steele counties for collection in the following year. In North Dakota, counties act as collection agents for all property taxes.

The counties spread all levies over taxable property. Property taxes are attached as an enforceable lien on the real estate and become due January 1 of the year following the assessment date. A 5% reduction is allowed if paid by February 15th. Penalty and interest are added March 1st unless the first half of the taxes have been paid. Additional penalties are added October 15th if not paid.

In the governmental funds, property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end. All other taxes are fully offset by unearned revenue because they are not known to be available to finance current expenditures.

Compensated Absences

Each teacher shall have ten (10) school days of sick leave annually, accumulative to seventy-five (75) school days. Upon termination, a teacher who has been in the school system fifteen years or more will be compensated at a rate of \$20 per day for unused sick leave.

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 fund balance in the classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – consists of amounts that are not in spendable form, such as inventory and prepaid items.

Restricted – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions and administered by the North Dakota Department of Public Instruction.

Committed – consists of internally imposed constraints. These constraints are established by Resolution of the Board of Education.

Assigned – consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the District's intended use. These constraints are established by the Board of Education and/or management.

Unassigned – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
AS OF JUNE 30, 2016

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.

Encumbrances

Encumbrances, which represent commitments related to unperformed contracts for goods or services, have not been recorded in the financial statements.

Minimum Fund Balance Policy

The Board of Education has not formally adopted a fund balance policy for the General Fund.

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

Use of Estimates

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

NOTE 2 - CASH AND INVESTMENTS

The District's funds are required to be deposited and invested with the designated depositories in accordance with the laws of North Dakota. North Dakota laws require all public deposits be protected by insurance, surety bond, or collateral pledged by the financial institution. Pledged collateral must equal 110% of the deposits not covered by insurance or bonds.

Interest Rate Risk

The District does not have a formal deposit policy that limits deposit maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

North Dakota laws restrict allowable investments for public funds in order to safeguard the principal on investments. North Dakota law 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.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
AS OF JUNE 30, 2016

- c) Certificates of Deposit fully insured by the federal deposit insurance corporation or the state.
- d) Obligations of the state.

NOTE 3 - CAPITAL ASSETS

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

	Balance 06/30/15	Additions	Disposals	Transfer	Balance 06/30/16
Governmental Activities					
Land	\$ 3,185	\$ -	\$ -	\$ -	\$ 3,185
Buildings	2,193,033	-	-	-	2,193,033
Equipment	597,634	-	-	-	597,634
Total	<u>2,793,852</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,793,852</u>
Less Accumulated Depreciation					
Buildings	926,257	38,604	-	-	964,861
Equipment	282,308	48,898	-	-	331,206
Total	<u>1,208,565</u>	<u>87,502</u>	<u>-</u>	<u>-</u>	<u>1,296,067</u>
Net Capital Assets for Governmental Activities	<u>\$ 1,585,287</u>	<u>\$ (87,502)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,497,785</u>

Depreciation expense for the year ended June 30, 2016 was charged to the following governmental functions:

Transportation	\$ 33,107
Regular Instruction	54,395
Total Depreciation	<u>\$ 87,502</u>

NOTE 4 - PENSION PLAN

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.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
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.

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.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
AS OF JUNE 30, 2016

Death and Disability Benefits

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

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

Member and Employer Contributions

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

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

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

At June 30, 2016, the District reported a liability of \$2,349,836 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 0.179671 percent which was an decrease of .0000226 from its proportion measured July 1, 2014.

For the year ended June 30, 2016, the Employer recognized pension expense of \$152,147. At June 30, 2015, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 15,398	\$ -
Net Investment Income	-	-
Changes in actuarial assumptions	263,846	-
Difference between projected and actual investment earnings	-	26,498
Changes in proportion	-	22,409
Contributions paid to TFFR subsequent to the measurement date	144,251	-
Total	\$ 423,495	\$ 48,907

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
AS OF JUNE 30, 2016

\$144,251 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	\$ 23,214
2018	23,214
2019	23,214
2020	76,682
2021	43,206
Thereafter	40,807

Actuarial Assumptions

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

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

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

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

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

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

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
AS OF JUNE 30, 2016

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%	1.30%
Global Real Assets	20.00%	5.40%
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:

	1% Decrease in Discount Rate 6.75%	Discount Rate 7.75%	1% Increase in Discount Rate 8.75%
School's proportionate share of the TFFR net pension liability:	\$ 3,105,420	\$ 2,349,836	\$ 1,719,696

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.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
AS OF JUNE 30, 2016

NOTE 5 - LONG-TERM DEBT

A summary of long-term debt is as follows:

Title	Interest Rate	Original Maturity	Balance 6/30/2015	Additions	Reductions	Balance 6/30/2016	Due within One Year
Compensated Absences			\$ 4,201	\$ 684	\$ -	\$ 4,885	\$ -
Net Pension Liability			1,906,272	443,564	-	2,349,836	-
			<u>\$4,538,918</u>	<u>\$ 1,372,463</u>	<u>\$ 147,500</u>	<u>\$5,763,881</u>	<u>\$ -</u>

Compensated absences are generally liquidated by the general fund.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

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.

NOTE 7 - 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 insurance for risks of loss considered necessary, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The District's property insurance is through the North Dakota State Fire and Tornado Fund, the liability insurance is provided through the North Dakota Insurance Reserve Fund, employee bond is provided by the North Dakota State Bond Fund, and workers' compensation is provided by the North Dakota Workforce Safety & Insurance. Other risks are covered by private insurance.

NOTE 8 - CHARITABLE TRUST

The district has been named as a beneficiary of the Conrad Heskin Charitable Trust. Each year, Alerus Financial, the Trustee, will forward the earnings of the trust to the District. The amounts received are restricted to providing scholarships to graduating seniors from the district. The total amount received by the district from the Trustee during the year ended June 30, 2016 was \$10,000.

NOTE 9 - SCHEDULE OF TRANSFERS

Transfers to General Fund	
Special Reserve	<u>\$ 46</u>

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
AS OF JUNE 30, 2016

The Board has approved the following transfers:

Transfer of approximately 50 percent of the fund balance of the Special Reserve Fund to be used for General Fund expenditures.

NOTE 10 - 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 \$8,089.

NOTE 11 - NEW PRONOUNCEMENTS

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

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.

Management has not yet determined the effect these statements will have on the entity's financial statements.

NOTE 12- EXPENDITURES IN EXCESS OF BUDGET

	Budget	Actual	Excess
General Fund:			
Extra-Curricular Activities	\$ 106,642	\$ 147,330	\$ 40,688
Food Service Fund:			
Operations and Maintenance	98,267	112,812	14,545

Funds sufficient to provide for the excess expenditures were made available from other functions within the fund, and the excess has no impact on the financial results of the District.

NOTE 13 - SUBSEQUENT EVENTS

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through September 16, 2016, which is the date these financial statements were available to be issued.

HATTON EIELSON PUBLIC SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Local Property Tax Levies	\$ 569,000	\$ 569,000	\$ 562,259	\$ (6,741)
Other Local and County Revenues	103,800	103,800	120,464	16,664
Revenue from State Sources	1,714,462	1,714,462	1,808,787	94,325
Revenue from Federal Sources	77,481	77,481	67,647	(9,834)
TOTAL REVENUES	<u>2,464,743</u>	<u>2,464,743</u>	<u>2,559,157</u>	<u>94,414</u>
EXPENDITURES				
Regular Instruction	1,232,547	1,232,759	1,212,295	20,464
Special Education	143,560	143,560	139,532	4,028
Vocational Education	137,426	137,426	132,603	4,823
Transportation	67,070	67,070	48,087	18,983
Extra-Curricular Activities	106,642	106,642	147,330	(40,688)
Instructional Support Services	62,389	60,985	59,259	1,726
Operations and Maintenance	771,939	773,535	713,182	60,353
TOTAL EXPENDITURES	<u>2,521,573</u>	<u>2,521,977</u>	<u>2,452,288</u>	<u>69,689</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(56,830)</u>	<u>(57,234)</u>	<u>106,869</u>	<u>164,103</u>
OTHER FINANCING SOURCES (USES)				
Transfer from other Funds	<u>40</u>	<u>40</u>	<u>46</u>	<u>6</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>40</u>	<u>40</u>	<u>46</u>	<u>6</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	<u>(56,790)</u>	<u>(57,194)</u>	<u>106,915</u>	<u>164,109</u>
Fund Balances - Beginning	<u>654,629</u>	<u>654,629</u>	<u>654,629</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 597,839</u>	<u>\$ 597,435</u>	<u>\$ 761,544</u>	<u>\$ 164,109</u>

See Note to the Budgetary Comparison Schedules

HATTON EIELSON PUBLIC SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE SPECIAL RESERVE FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Local Property Tax Levies	\$ 23,000	\$ 23,000	\$ 22,270	\$ (730)
Other Local and County Revenues	47	47	31	(16)
TOTAL REVENUES	<u>23,047</u>	<u>23,047</u>	<u>22,301</u>	<u>(746)</u>
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>23,047</u>	<u>23,047</u>	<u>22,301</u>	<u>(746)</u>
OTHER FINANCING SOURCES (USES)				
Transfer to other Funds	<u>(47)</u>	<u>(47)</u>	<u>(46)</u>	<u>1</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(47)</u>	<u>(47)</u>	<u>(46)</u>	<u>1</u>
Excess (Deficiency) of Revenues and Other Financing Sources (Uses)	23,000	23,000	22,255	(745)
Fund Balances - Beginning	<u>54,755</u>	<u>54,755</u>	<u>54,755</u>	<u>-</u>
Fund Balances - Ending	<u><u>\$ 77,755</u></u>	<u><u>\$ 77,755</u></u>	<u><u>\$ 77,010</u></u>	<u><u>\$ (745)</u></u>

See Note to the Budgetary Comparison Schedules

HATTON EIELSON PUBLIC SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE FOOD SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Other Local and County Revenues	\$ 54,500	\$ 54,500	\$ 56,640	\$ 2,140
Revenue from State Sources	-	-	1,112	1,112
Revenue from Federal Sources	42,000	42,000	53,279	11,279
TOTAL REVENUES	<u>96,500</u>	<u>96,500</u>	<u>111,031</u>	<u>14,531</u>
EXPENDITURES				
Operations and Maintenance	\$ 98,267	\$ 98,267	\$ 112,812	\$ (14,545)
TOTAL EXPENDITURES	<u>98,267</u>	<u>98,267</u>	<u>112,812</u>	<u>(14,545)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,767)</u>	<u>(1,767)</u>	<u>(1,781)</u>	<u>(14)</u>
Fund Balances - Beginning	<u>2,278</u>	<u>2,278</u>	<u>2,278</u>	<u>-</u>
Fund Balances - Ending	<u><u>\$ 511</u></u>	<u><u>\$ 511</u></u>	<u><u>\$ 497</u></u>	<u><u>\$ (14)</u></u>

See Note to the Budgetary Comparison Schedules

HATTON EIELSON PUBLIC SCHOOL DISTRICT
NOTE TO THE BUDGETARY COMPARISON SCHEDULES
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 August 15th of each year. The budget is then filed with the county auditor by August 25th 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 10th 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 District's fiscal year. The balance of the appropriation reverts back to each respective fund and is available for future appropriation.

HATTON EIELSON PUBLIC SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS TO THE TFFR PENSION PLAN
LAST TEN YEARS

Teachers Fund for Retirement

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	\$ 144,251	\$ (144,251)	\$ -	\$ 1,131,379	12.75%
2015	140,902	(140,902)	-	1,105,167	12.75%

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

HATTON EIELSON PUBLIC SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST TEN YEARS

Teachers Fund for Retirement

Fiscal Year Ended	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	0.179671%	\$ 2,349,836	\$ 1,105,167	212.62%	62.10%
2015	0.181927%	1,906,272	1,055,272	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

HATTON EIELSON PUBLIC SCHOOL DISTRICT
HATTON, NORTH DAKOTA
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
Hatton Eielson Public School District No. 7
Hatton, 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 Hatton Eielson Public School District No. 7 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Hatton Eielson Public School District No. 7's basic financial statements and have issued our report thereon dated September 16, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hatton Eielson Public School District No. 7'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 Hatton Eielson Public School District No. 7's internal control. Accordingly, we do not express an opinion on the effectiveness of Hatton Eielson Public School District No. 7's internal control..

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2016-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hatton Eielson Public School District No. 7's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hatton Eielson Public School District No. 7's Response to Finding

Hatton Eielson Public School District No. 7's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Hatton Eielson Public School District No. 7's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



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

September 16, 2016

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

2016-001 Finding

Criteria

To provide reasonable assurance that segregation of duties take place while also taking into account the size of the District.

Condition

The District has one employee who is responsible for all accounting functions involved. The employee handles all income monies, prepares the receipts documents, prepares the deposits, issues all checks and distributes them, receives the bank statements and does the reconciliations. The employee also records the receipts and disbursements to the journals and maintains the general ledger. Considering the size of the District, it is not feasible to obtain proper separation of duties and the degree of internal control is severely limited.

Cause

There is only one business manager and due to the District's size, they are unable to hire more staff.

Effect

Lack of segregation of duties leads to a limited degree of internal control.

Recommendation

The District should separate the duties when it becomes feasible.

Management's Response

We concur with the auditor's recommendation; however considering the size of the entity it is not feasible to obtain proper separation of duties.