

**Hillsboro Public School District No. 9**  
**Hillsboro, North Dakota**  
**Audit Report**  
**Year Ended June 30, 2016**

Nadine Julson, LLC

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Hillsboro, North Dakota**

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**June 30, 2016**

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**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**

**Hillsboro, North Dakota**

**OFFICIAL DIRECTORY**

**June 30, 2016**

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Tracy Buzick	President
Richard Diehl	Vice - President
Tim Kozojed	Board Member
Paul Kozojed	Board Member
Kris Brekken	Board Member
Paula Suda	Superintendent
Vicky Grothmann	Business Manager



School Board  
Hillsboro Public School District No. 9  
Hillsboro, North Dakota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hillsboro Public School District No. 9 as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Hillsboro Public School District No. 9, Hillsboro, North Dakota, as of June 30, 2016, and the respective change in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Other Matters**

##### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-9 and 36 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 Hillsboro Public School District No. 9's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

#### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, I have also issued a report dated May 10, 2017, on my consideration of the School District's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions 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 Hillsboro Public School District No. 9's internal control over financial reporting and compliance.

*Nadine Julson, LLC*

Nadine Julson, LLC  
Wahpeton, North Dakota  
May 10, 2017

*Nadine Julson, LLC*

# HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9

Hillsboro, North Dakota

## Management Discussion and Analysis

Year Ended June 30, 2016

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The Management's Discussion and Analysis (MD&A) of Hillsboro Public School District No. 9's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2016, with comparative data for the fiscal year ended June 30, 2015. The intent of the MD&A is to look at the District's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

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

### Financial Highlights

Key financial highlights for fiscal year 2015-2016 are as follows:

Sports Complex expenditures were included in the 2015-2016 budget but donations have been raised to cover those expenditures in the 2016-2017 fiscal year. The School District added 1 full-time employee and received the Build, Security, and Title I & Title II Reallocation Grants. Hot lunch salaries were not paid out of the General Fund during the 2015-2016 fiscal year and the School District purchased 2 vehicles and a new route bus and activity bus.

### Using this Annual Report

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand Hillsboro Public School District No. 9 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. 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 general fund with all other governmental funds presented in total in one column.

### Reporting on the District as a Whole

#### *Statement of Net Position and Statement of Activities*

These statements are summaries of all the funds used by the Hillsboro Public School District No. 9 to provide programs and activities and attempt to answer the question "How did the District do financially during the year ended June 30, 2016?"

The Statement of Net Position presents information on all the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases and 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 on how the District's net position changed during the fiscal year. This statement is presented using the accrual basis of accounting, which means that all changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes).

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

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Management Discussion and Analysis - Continued**

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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, regular instruction, federal programs, special education, vocational education, administration, food services, operation and maintenance of buildings and grounds, student transportation, and co-curricular activities.

The government-wide financial statements can be found on pages 10-11 of this report.

**Reporting on the District's Most Significant Funds**

*Balance Sheet - Governmental Funds*

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

The District's other funds, which are the capital projects, food service, debt and special reserve, are used to account for a multitude of financial transactions and is summarized under the heading "Other Governmental Funds".

The basic governmental fund financial statements can be found on pages 12 and 14 of this report.

In addition, the School District has the following fund types:

*Fiduciary Funds*

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Hillsboro Public School District No. 9's own programs.

The basic fiduciary fund financial statements can be found on page 16 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 17-35 of this report.

The combining statements referred to earlier in connection with non-major government funds can be found on pages 39-40 of this report.

**Financial Analysis of the District as a Whole**

Table I provides a summary of the School District's net position as of June 30, 2016 and 2015. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Hillsboro Public School District No. 9, net position decreased by \$625,606 for the year ending June 30, 2016.

The School District's net position at June 30, 2016 is segregated into three separate categories. Net position invested in capital assets (net of related debt) are not available for future spending. Restricted net position represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted net positions are available to meet the School District's ongoing obligations.

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Management Discussion and Analysis - Continued**

**Table I**  
**Net Position**  
**June 30,**

	2016	2015
<b>Assets and Deferred Outflows of Resources:</b>		
Current Assets	\$ 2,558,067	\$ 1,977,547
Capital Assets (net of depreciation)	6,749,905	4,373,268
Deferred Outflows of Resources	<u>1,173,860</u>	<u>530,472</u>
Total Assets and Deferred Outflows of Resources	10,481,832	6,881,287
<b>Liabilities and Deferred Inflows of Resources:</b>		
Current Liabilities	532,069	225,751
Long-term Liabilities	8,589,295	4,390,200
Deferred Inflows of Resources	<u>155,829</u>	<u>435,091</u>
Total Liabilities and Deferred Inflows of Resources	9,277,193	5,051,042
<b>Net Position:</b>		
Net Investment in Capital Assets	3,249,318	3,690,960
Restricted	1,432,375	834,351
Unrestricted	<u>(3,477,054)</u>	<u>(2,695,066)</u>
Total Net Position	<u>\$ 1,204,639</u>	<u>\$ 1,830,245</u>

Table II shows the changes in net position for the fiscal years ended June 30, 2016 and 2015.

**Table II**  
**Changes in Net Position**  
**For the Years Ended June 30,**

	2016	2015
<b>Revenues:</b>		
<b>Program Revenues:</b>		
Charges for Services	\$ 221,904	\$ 226,799
Operating Grants and Contributions	439,667	443,395
<b>General Revenues:</b>		
Property Taxes	1,441,819	1,636,819
State Aid - Unrestricted	3,819,919	3,646,075
Interest and Miscellaneous Earnings	189,440	165,917
Gain on Sale	<u>6,181</u>	<u>-</u>
Total Revenues	6,118,930	6,119,005



**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Management Discussion and Analysis - Continued**

	2016	2015
<b>Expenses:</b>		
Regular Instruction	3,485,072	2,277,095
Special Instruction	253,768	244,113
Vocational Instruction	204,825	210,639
Pupil Services	375,906	292,262
General Administration Services	466,660	443,383
School Administration Services	135,066	135,719
Operation and Maintenance	685,309	649,521
Pupil Transportation	347,905	307,179
Student Activities	278,496	200,464
School Food Services	302,458	292,141
Community Services	100,300	10,139
Interest and Other Charges	108,771	46,967
<b>Total Expenses</b>	<b>6,744,536</b>	<b>5,109,622</b>
<b>Change in Net Position</b>	<b>\$ (625,606)</b>	<b>\$ 1,009,383</b>

Unrestricted state aid constituted 62.4%, property tax 23.6%, operating grants and contributions 7.2% and charges for services made 3.6% of the total revenues of governmental activities of the School District for the fiscal year June 30, 2016.

Regular instruction constituted 51.7%, operations and maintenance of plant 10.2%, general administration 6.9%, pupil services 5.6%, and pupil transportation 5.2% of total expenditures for governmental activities during the fiscal year June 30, 2016.

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

**Table III**  
**Total and Net Cost of Services**  
For the Years Ended June 30,

	Total Cost		Net Cost	
	2016	2015	2016	2015
Regular Instruction	3,485,072	2,277,095	3,246,898	2,035,009
Special Instruction	253,768	244,113	253,768	244,113
Vocational Instruction	204,825	210,639	180,288	157,433
Pupil Services	375,906	292,262	375,906	292,262
General Administration Services	466,660	443,383	466,660	443,383
School Administration Services	135,066	135,719	135,066	135,719
Operation and Maintenance	685,309	649,521	685,309	649,521
Pupil Transportation	347,905	307,179	235,812	200,868
Student Activities	278,496	200,464	278,496	200,464
School Food Services	302,458	292,141	15,691	23,550
Adult Education	100,300	10,139	100,300	10,139
Interest and Other Charges	108,771	46,967	108,771	46,967
<b>Total Expenses</b>	<b>\$ 6,744,536</b>	<b>\$ 5,109,622</b>	<b>\$ 6,082,965</b>	<b>\$ 4,439,428</b>

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Management Discussion and Analysis - Continued**

**Financial Analysis of the Government's Funds**

The purpose of the District's governmental funds is to provide information on the near-term inflows, outflows, and balances of available resources. Unreserved fund balance generally can be used as a measure of the District's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified accrual basis of accounting.

The School District's governmental funds had total revenue of \$6,133,608 and expenditures of \$8,664,490 for the year ended June 30, 2016. The unassigned fund balance of the School District's general fund was \$837,373.

**General Fund Budgetary highlights**

During the year, revenues were less than budgetary estimates by \$36,098, expenditures were more than budgetary estimates by \$158,801, and ending fund balance was less than budgetary estimates by \$194,899. Regular instruction supplies were higher than budgeted amounts and student activity supplies were paid with sponsorship monies to be collected in the next fiscal year. Student activity and regular instruction salaries were also higher than budgeted amounts. State source revenues were lower than budgeted amounts due to receiving less in per pupil payments.

Additional information on the Hillsboro Public School District No. 9 budget can be found in Note 2 of the audited financial statements that follow this analysis.

**Capital Assets**

As of June 30, 2016, the Hillsboro Public School District No. 9 had \$6,749,905 invested in capital assets, Table IV shows the balances at June 30, 2016 and 2015.

**Table IV**  
**Capital Assets**  
 (Net of Accumulated Depreciation)  
 June 30,

	2016	2015
Land	\$ 23,500	\$ 23,500
Construction in Progress	462,247	475,526
Buildings and Improvements	5,754,885	3,554,547
Vehicles	319,563	162,941
Equipment	189,710	156,754
<b>Total Capital Assets (net of accumulated depreciation)</b>	<b>6,749,905</b>	<b>4,373,268</b>

This total represents a net increase of \$2,376,637 in capital assets from the prior fiscal year. For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 11 of the audited financial statements that follow this analysis.

**Debt Administration**

As of June 30, 2016, the Hillsboro Public School District No. 9 had \$8,872,637 of total debt, an increase of \$4,335,716 from the previous year.

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Management Discussion and Analysis - Continued**

**Table V**  
**Outstanding Debt**  
**June 30,**

	Total Outstanding		Due Within One Year	
	2016	2015	2016	2015
General Obligation Bonds	\$ 3,350,000	\$ 480,000	\$ 250,000	\$ 115,000
Capital Leases Payable	150,587	182,308	33,342	31,721
Total Outstanding Debt	<u>3,500,587</u>	<u>662,308</u>	<u>283,342</u>	<u>146,721</u>

For additional information regarding the outstanding debt, readers are referred to Note 13 of the audited financial statements that follow this analysis.

**For the Future**

For the school year 2016 - 2017 the School District:

ND State Per Pupil payments increase to \$9,646. A \$1.5 million dollar bond referendum was approved for the Outdoor Sports Complex Project and completed in October. A sponsorship campaign was started to raise funds needed for additional complex needs. A full-time elementary teacher and two MaSu Head Start Pre-K para educators will be added to the current staff. Technology updates include 20 new computers for the High School and 80 Chromebooks/carts for the Junior High and Senior High classrooms along with updating copiers at the High School and Elementary School.

**Contacting the Districts Financial Management**

This financial report is designed to provide our parents, taxpayers and creditors with a general overview of the Hillsboro Public School District No. 9's finances and to show the School District's accountability for the money it receives to provide the best possible education to all students enrolled in Hillsboro Public School District No. 9. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Paula Suda at P.O. Box 579 Hillsboro, North Dakota, 58045, 701-636-4360.

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**

Hillsboro, North Dakota

**STATEMENT OF NET POSITION**

June 30, 2016

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ASSETS	
Cash and Investments	\$ 2,264,738
Accounts Receivable	77,867
Due from County	55,571
Due from State Government	20,282
Due from Federal Government	82,718
Inventory	5,638
Taxes Receivable	<u>51,253</u>
	2,558,067
Capital Assets	
Non-depreciable	
Land	23,500
Construction in Progress	462,247
Depreciable, net of accumulated depreciation	
Buildings	5,754,885
Vehicles	319,563
Equipment	<u>189,710</u>
Total Capital Assets	<u>6,749,905</u>
Total Assets	9,307,972
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow Related to Pensions	<u>1,173,860</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 10,481,832</u>
LIABILITIES	
Accounts Payable	\$ 175,227
Interest Payable	33,434
Salaries and Benefits Payable	40,066
Current Portion of Long-term Debt:	
Capital Leases Payable	33,342
General Obligation Bonds Payable	250,000
Due After One Year:	
Capital Leases Payable	117,245
General Obligation Bonds Payable	3,100,000
Compensated Absences Payable	46,380
Net Pension Liability	<u>5,325,670</u>
Total Liabilities	9,121,364
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow Related to Pensions	<u>155,829</u>
Total Liabilities and Deferred Inflows of Resources	9,277,193
NET POSITION	
Net Investment in Capital Assets	3,249,318
Restricted	1,432,375
Unrestricted	<u>(3,477,054)</u>
Total Net Position	<u>\$ 1,204,639</u>

See Notes to Financial Statements

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**

Hillsboro, North Dakota

**STATEMENT OF ACTIVITIES**

Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
<b>Governmental Activities:</b>				
Regular Instruction	\$ 3,485,072	\$ 41,073	\$ 197,101	\$ (3,246,898)
Special Instruction	253,768	-	-	(253,768)
Vocational Instruction	204,825	-	24,537	(180,288)
Pupil Services	375,906	-	-	-
General Administration Services	466,660	-	-	(466,660)
School Administration Services	135,066	-	-	(135,066)
Operation and Maintenance	685,309	-	-	(685,309)
Pupil Transportation	347,905	-	112,093	(235,812)
Student Activities	278,496	-	-	(278,496)
School Food Services	302,458	180,831	105,936	(15,691)
Adult Education	100,300	-	-	(100,300)
Interest and Other Charges	108,771	-	-	(108,771)
<b>Total Governmental Activities</b>	<b>\$ 6,744,536</b>	<b>\$ 221,904</b>	<b>\$ 439,667</b>	<b>(6,082,965)</b>
<b>General Revenues:</b>				
Taxes:				
				1,157,586
				117,084
				167,149
				3,819,919
				9,096
				6,181
				180,344
				<u>5,457,359</u>
				Change in Net Position (625,606)
				Net Position, Beginning of Year <u>1,830,245</u>
				Net Position, End of Year <u>\$ 1,204,639</u>

See Notes to Financial Statements

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Hillsboro, North Dakota**

**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2016**

	Major Funds				Total Governmental Funds
	General Fund	Capital Projects Building	Debt Service	Other Governmental Funds	
<b>ASSETS</b>					
Cash and Investments	\$ 832,791	\$ 626,933	\$ 612,740	\$ 192,274	\$ 2,264,738
Accounts Receivable	77,867	-	-	-	77,867
Due from County	43,583	6,560	4,774	654	55,571
Due from State Government	12,702	-	-	7,580	20,282
Due from Federal Government	82,718	-	-	-	82,718
Due from Other Funds	3,005	2,293	-	-	5,298
Inventory	-	-	-	5,638	5,638
Taxes Receivable	39,592	6,163	4,889	609	51,253
<b>Total Assets</b>	<b>\$ 1,092,258</b>	<b>\$ 641,949</b>	<b>\$ 622,403</b>	<b>\$ 206,755</b>	<b>\$ 2,563,365</b>
<b>LIABILITIES</b>					
Accounts Payable	\$ 175,227	\$ -	\$ -	\$ -	\$ 175,227
Salaries and Benefits Payable	40,066	-	-	-	40,066
Due to Other Funds	-	-	2,293	3,005	5,298
<b>Total Liabilities</b>	<b>215,293</b>	<b>-</b>	<b>2,293</b>	<b>3,005</b>	<b>220,591</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred Revenue	39,592	6,163	4,889	609	51,253
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>254,885</b>	<b>6,163</b>	<b>7,182</b>	<b>3,614</b>	<b>271,844</b>
<b>FUND BALANCE</b>					
Nonspendable	-	-	-	5,638	5,638
Restricted	-	635,786	615,221	116,817	1,367,824
Assigned	-	-	-	80,686	80,686
Unassigned	837,373	-	-	-	837,373
<b>Total Fund Balances</b>	<b>837,373</b>	<b>635,786</b>	<b>615,221</b>	<b>203,141</b>	<b>2,291,521</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 1,092,258</b>	<b>\$ 641,949</b>	<b>\$ 622,403</b>	<b>\$ 206,755</b>	<b>\$ 2,563,365</b>

See Notes to Financial Statements

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Hillsboro, North Dakota**

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

Total Fund Balances - Governmental Funds \$ 2,291,521

Total net position reported for government activities in the statement of net position is different because:

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

Cost of Capital Assets	10,460,603	
Less Accumulated Depreciation	<u>(3,710,698)</u>	
Net Capital Assets		6,749,905

Property taxes receivable will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenue in the funds 51,253

Long-term liabilities applicable to the School District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term are reported in the statement of net position. Balances at the end of the year are reported in the statement of net position.

Interest Payable	(33,434)	
Capital Lease Payable	(150,587)	
General Obligation Bonds Payable	(3,350,000)	
Compensated Absences	(46,380)	
Pension Liability (net of related deferred outflows and inflows)	<u>(4,307,639)</u>	
Total Long-term Liabilities		<u>(7,888,040)</u>

Net Position of Governmental Activities \$ 1,204,639

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Hillsboro, North Dakota**

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

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Capital Projects	Debt Service		
<b>REVENUES</b>					
Local Sources	\$ 1,224,846	\$ 168,218	\$ 121,559	\$ 197,603	\$ 1,712,226
State Sources	3,956,549	-	-	3,014	3,959,563
Federal Sources	159,457	-	-	102,922	262,379
Interest Income	9,064	-	-	32	9,096
Miscellaneous	190,344	-	-	-	190,344
<b>Total Revenues</b>	<b>5,540,260</b>	<b>168,218</b>	<b>121,559</b>	<b>303,571</b>	<b>6,133,608</b>
<b>EXPENDITURES</b>					
<b>Current</b>					
Regular Instruction	2,876,384	-	-	-	2,876,384
Special Instruction	247,433	-	-	-	247,433
Vocational Instruction	204,825	-	-	-	204,825
Pupil Services	375,906	-	-	-	375,906
General Administration Services	466,660	-	-	-	466,660
School Administration Services	135,066	-	-	-	135,066
Operation and Maintenance	540,692	-	-	-	540,692
Pupil Transportation	508,346	-	-	-	508,346
Student Activities	321,764	-	-	-	321,764
School Food Services	6,408	-	-	296,050	302,458
Community Services	105,165	-	-	-	105,165
<b>Debt Service</b>					
Principal	31,721	-	115,000	-	146,721
Interest and Other Charges	8,386	21,265	46,684	-	76,335
<b>Capital Outlay</b>					
Facilities Acquisition and Construction	-	2,356,735	-	-	2,356,735
<b>Total Expenditures</b>	<b>5,828,756</b>	<b>2,378,000</b>	<b>161,684</b>	<b>296,050</b>	<b>8,664,490</b>
Excess (Deficiency) of Revenues over Expenditures	(288,496)	(2,209,782)	(40,125)	7,521	(2,530,882)
<b>OTHER FINANCING SOURCES (USES)</b>					
Bond Proceeds	-	2,965,000	-	-	2,965,000
Operating Transfer In	-	-	25,647	-	25,647
Operating Transfer Out	-	(25,647)	-	-	(25,647)
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>2,939,353</b>	<b>25,647</b>	<b>-</b>	<b>2,965,000</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(288,496)</b>	<b>729,571</b>	<b>(14,478)</b>	<b>7,521</b>	<b>434,118</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>1,125,869</b>	<b>(93,785)</b>	<b>629,699</b>	<b>195,620</b>	<b>1,857,403</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 837,373</b>	<b>\$ 635,786</b>	<b>\$ 615,221</b>	<b>\$ 203,141</b>	<b>\$ 2,291,521</b>

See Notes to Financial Statements



**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Hillsboro, North Dakota**

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

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Net Change in Fund Balances - Total Governmental Funds		\$	434,118
The change in net position reported for governmental activities in the Statement of Activities is different because:			
Repayment of debt principal and capital lease payable is an expenditure in the governmental fund financial statements, but repayment reduces long-term liabilities in the statements of net position.			
			146,721
Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.			
Net increase in compensated absences	(1,716)		
Net increase in pension liability	(573,071)		
Net increase in interest payable	<u>(32,436)</u>		
			(607,223)
Governmental funds report debt proceeds as current financial resources. The Statement of Activities treats such issuance of bonds payable as a liability			
			(2,965,000)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets with a cost greater than \$5,000 is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation and asset disposals in the current year.			
			2,376,637
Some revenues reported on the Statement of Activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of a decrease in taxes receivable.			
			(10,859)
Changes in Net Position of Governmental Activities		\$	<u>(625,606)</u>

See Notes to Financial Statements

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Hillsboro, North Dakota**

**STATEMENT OF FIDUCIARY NET POSITION**  
**June 30, 2016**

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and Investments	\$ <u>47,548</u>
Total Assets	\$ <u><u>47,548</u></u>
<b>LIABILITIES</b>	
Accounts Payable	\$ 619
Due to Student Groups	<u>46,929</u>
Total Liabilities	\$ <u><u>47,548</u></u>

See Notes to Financial Statements

## HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9

Hillsboro, North Dakota

### NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Hillsboro Public School District No. 9, Hillsboro, North Dakota, have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

##### **A. Reporting Entity**

The accompanying financial statements present the activities of the Hillsboro Public School District No. 9. The School District has considered all potential component units for which the School District is financially accountable and other organizations for which the nature and significance of their relationships with the School District such that exclusion would cause the School District's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. This criterion includes appointing a voting majority of an organization's governing body and (1) the ability of the Hillsboro Public School District No. 9 to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on Hillsboro Public School District No. 9.

Based on these criteria, there is one component unit to be included within the Hillsboro Public School District No. 9 as a reporting entity.

*Blended Component Unit* - Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from this unit is combined with data from primary government funds.

*Hillsboro Public School District No. 9 Building Authority* - The Hillsboro Public School District No. 9 Building Authority was created by the school board to aid, assist and foster the planning, development, construction, renovation and improvement of school buildings, furnishings, fixtures, equipment and related facilities for the School District, all for the purpose of securing adequate schools and related facilities. The School Board is the Building Authority board and they make the operating and financing decisions of the Building Authority. The activities of the building authority are reported in the governmental funds.

##### **B. Basis of Presentation, Basis of Accounting**

*Government-wide Statements* - The statement of net position and the statement of activities display information about the primary government (Hillsboro Public School District No. 9). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, fees and other non-exchange transactions. The statement of activities presents a comparison between direct expenses and program revenues for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements* - The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and fiduciary. Since the resources in the fiduciary funds cannot be used for School District operations, they are not included in the district-wide statements. The School District considers some governmental funds major and reports their financial condition and results of operations in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The School District reports the following major governmental funds:

*General Fund* - The General Fund is the School District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

## HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9

### Notes to Financial Statements - Continued

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*Debt Service Fund* - Used to account for the accumulation of resources for, and payment of, general obligation bond principal, interest, and related costs.

*Capital Projects Fund* - Used to account for financial resources related to capital outlays made by the School District.

Additionally, the School District reports the following governmental fund types that are included in non-major funds:

#### 1. Governmental Funds

- a. *Special Reserve Fund* - Used to account for resources restricted to, or designated for, specific purposes by the School District.
- b. *Food Service Fund* - Used to account for food service revenues and expenditures.

#### 2. Fiduciary Funds

- a. *Agency Funds* - Used to account for resources held for other in a custodial capacity, the School District's Agency Fund is the Student Activity Fund.

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

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

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

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

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

### D. Cash and Investments

Cash includes amounts in demand deposits and money market accounts. Cash equivalents on the statement of cash flows consist of certificates of deposit with a maturity of three months or more. Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the uninsured balance.

Investments consist of certificates of deposits stated at cost with maturities greater than three months.

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Notes to Financial Statements - Continued**

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**E. Capital Assets**

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

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

<u>Assets</u>	<u>Years</u>
Building	25-50
Playground equipment/fences/shelving/bleachers	20
Food service equipment/tractors	15
Sound systems/projectors/sports machines/mats	10
School buses/vehicles	8
Office/computer/other equipment	5

**F. Vacation Pay, Sick Pay, Severance**

Sick leave benefits are earned at the rate of ten days per year regardless of the years of service. Employees may carry over a maximum of 90 days of sick leave and the superintendent may carry over 75 days of sick leave at June 30th of each year. Certified and administrative employees are paid \$25 per day of unused sick leave at retirement if they have six years or more of service. Certified personnel are given two days of personal leave at the beginning of each year and are allowed to carry over two days at year-end with a maximum accumulation of four days. Personal days in excess of the carry over amount may be purchased by the School District prior to June 30th. The School District pays employees \$105 per day for excess personal days. A liability for the vested portion of compensated absences related to sick and personal leave is reported in the government-wide statement of net position.

**G. Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the government activities statement of net position. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material. In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**H. Pension Plans**

Effective for fiscal years beginning after June 30, 2014, GASB Statement No. 68, Accounting for Pensions by State and Local Governmental Employees, is required by the School District.

The new standard related to accounting and financial reporting issues and how pension costs and obligation are measured and reported in audited financial reports. While there has historically been a close relationship between how governments fund, account for, and report pensions, the new guidance establishes a decided shift in financial reporting for pensions from a funding-based approach to an account-based approach. This shift was designed to improve pension information and increase transparency, consistency, and comparability of pension information across governments.

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.

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Notes to Financial Statements - Continued**

**I. Fund Balances and Net Position**

GASB Statement No. 54 established new fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restriction or limitations) imposed upon the use of the resources reported in governmental funds.

*Fund Balance Spending Policy:*

It is the policy of the Hillsboro Public School District to spend restricted resources first, followed by unrestricted resources. It is also the policy of the Board to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

*Budget Stabilization Policy:*

Replenishing deficiencies - when fund balance falls below the minimum 10 percent range, the District will replenish shortages/deficiencies using the budget strategies and time frames described as follows.

The following budgetary strategies shall be utilized by the District to replenish funding deficiencies

- The District will reduce recurring expenditures to eliminate any structural deficit; or
- The District will increase revenues or pursue funding sources; or
- Some combination of the two operations above

*GASB Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions*

GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions" provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints and the purpose for which resources can be used:

<u>CLASSIFICATION</u>	<u>DEFINITION</u>	<u>EXAMPLES</u>
Nonspendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables, endowment funds.
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose.
Committed	A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the School Board. Formal action is required to be taken to establish, modify, or rescind a fund balance commitment.	By board action, construction claims and judgements, retirements of loans and notes payable, capital expenditures, and self insurance.
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the board and the business manager.	By board action, construction claims and judgements, retirements of loans and notes payable, capital expenditures, and self-insurance.

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Notes to Financial Statements - Continued**

<u>CLASSIFICATION</u>	<u>DEFINITION</u>	<u>EXAMPLES</u>
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is a fund balance that has not been reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. A negative unassigned fund balance may be reported in other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.	Available for any remaining general fund expenditure.

*Nonspendable Fund Balance*

Consists of food inventory reported in the Food Service Fund at year end.

*Restricted Fund Balances - Consist of the following items:*

Special Reserve Fund

Funds used for special uses as restricted by state law. In accordance with NDCC 57-19-01, the ending fund balance is limited to the amount generated by fifteen (15) mills times the taxable valuation of the School District. Restricted by enabling legislation and tax levy.

Debt Service Fund

Funds used for the payment of principal and interest. Restricted by enabling legislation, tax levy, and bond indenture.

*Assigned Fund Balances - Consist of the following item:*

Food Service Fund

Restricted state and federal resources are spent first and reimbursed by each year-end. Any remaining fund balance is normally left in the food service fund at each year-end, but may be spent at the discretion of the business manager (authority given from the governing board). Assigned by federal and state reimbursements for free and reduced meals and grants.

*Unassigned Fund Balance*

Consists of the amount reported in the General Fund at year-end.

*Net Position*

Hillsboro Public School District No. 9 implemented the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position during the year ended June 30, 2013.

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

Net Investment in capital assets is reported for capital assets less accumulated depreciation and any related debt used to construct them. The resources needed to repay this related debt must be provided from other sources, since capital assets are not used to liquidate these liabilities. These assets are not available for future spending.

Restrictions of net position, shown in the Statement of Net Position, are due to restricted tax levies and bond indenture capital construction requirements for capital projects and special purposes. Unrestricted net position is primarily unrestricted amounts related to the general fund and any negative fund balances. The unrestricted net position is available to meet the District's ongoing obligations.

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Notes to Financial Statements - Continued**

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**J. Interfund Transactions**

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

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. In the government-wide financial statements, interfund transactions have been eliminated.

**NOTE 2 - LEGAL COMPLIANCE - BUDGETS**

Expenditures over Appropriations – The general fund expenditures exceeded appropriations by \$158,801.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

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

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

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the State of North Dakota whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board. At year end June 30, 2016, the School District's carrying amounts of deposits was \$2,264,738 and the bank balances were \$2,793,012. Of the bank balances, \$500,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by pledging financial institution's agent in the government's name. As of June 30, 2016, the School District was short on pledge securities, but subsequent to year end, the pledge securities were adequate.

*Credit Risk:*

The School District may invest idle funds as authorized in North Dakota Statues, as follows:

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

As of June 30, 2016, the School District held no certificates of deposit.

*Interest Rate Risk:*

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



**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Notes to Financial Statements - Continued**

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*Concentration of Credit Risk:*

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

**NOTE 4 - TAXES RECEIVABLE**

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

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

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

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

**NOTE 5 - ACCOUNTS RECEIVABLE**

Accounts receivable consists of amounts for accrued interest and amounts on open account from other school districts and organizations for goods and services furnished by the School District. No allowance has been established for uncollectible accounts.

**NOTE 6 - DUE FROM COUNTY TREASURER**

Due from county represents the amount of taxes collected prior to year-end by Cass County that remain on hand at the county that are distributed to the School District shortly after June 30, 2016.

**NOTE 7 - DUE FROM FEDERAL GOVERNMENT**

The amount due from federal government consists of a reimbursement claim for various Title Programs. This claim is passed through the state.

**NOTE 8 - DUE FROM STATE GOVERNMENT**

The amount due from state government consists of reimbursement claims for various projects.

**NOTE 9 - INVENTORY**

Inventory consists of food service supplies not consumed as of June 30, 2016 reported in the food service fund. Reported inventories net of deferred revenue are offset by a fund balance reserve to indicate they do not constitute "available spendable resources" even though they are a component of net current assets.

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Notes to Financial Statements - Continued**

NOTE 10 - DUE TO/FROM OTHER FUNDS

Fund	Interfund Receivable	Interfund Payable
General Fund	\$ 3,005	\$ -
Debt Services Fund	-	2,293
Capital Projects - Building	2,293	-
Special Revenue - Food Service	-	3,005
Totals	<u>\$ 5,298</u>	<u>\$ 5,298</u>

NOTE 11 - CAPITAL ASSETS

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

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 23,500	\$ -	\$ -	\$ 23,500
Construction in Progress	475,526	450,053	(463,332)	462,247
Total Capital Assets, not being depreciated	499,026	450,053	(463,332)	485,747
Capital Assets, being depreciated:				
Buildings and Improvements	6,243,262	2,370,014	-	8,613,276
Vehicles	632,174	230,099	(39,124)	823,149
Equipment	477,262	61,169	-	538,431
Total Capital Assets, being depreciated	7,352,698	2,661,282	(39,124)	9,974,856
Less Accumulated Depreciation for:				
Buildings and Improvements	2,688,715	169,676	-	2,858,391
Vehicles	469,233	69,658	(35,305)	503,586
Equipment	320,508	28,213	-	348,721
Total Accumulated Depreciation	3,478,456	267,547	(35,305)	3,710,698
Total Capital Assets Being Depreciated, Net	3,874,242	2,393,735	(3,819)	6,264,158
Governmental Activities Capital Assets, Net	<u>\$ 4,373,268</u>	<u>\$ 2,843,788</u>	<u>\$ (467,151)</u>	<u>\$ 6,749,905</u>

Depreciation expense was charged to functions/programs of the School District as follows:

Governmental Activities:	
Regular Instruction	\$ 33,901
Special Education	6,335
Adult Education	330
Operation and Maintenance	144,617
Transportation	69,658
Student Activities	12,706
Total Depreciation Expense - Governmental Activities	<u>\$ 267,547</u>

NOTE 12 - ACCOUNTS PAYABLE

Accounts payable consists of amounts owed for goods and services received prior to or owed to taxing authorities at June 30, 2016 and chargeable to the appropriations for the year then ended, but paid subsequent to that date.

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Notes to Financial Statements - Continued**

NOTE 13 - LONG-TERM DEBT

During the year ended June 30, 2016, the following changes occurred in liabilities reported in long-term liabilities:

Governmental Activities:

	<u>Long-term Debt Payable at July 1, 2015</u>	<u>Debt Issued</u>	<u>Debt Retired</u>	<u>Long-term Debt Payable at June 30, 2016</u>	<u>Due Within One Year</u>
General Obligation Bonds Payable	\$ 480,000	\$2,985,000	\$(115,000)	\$ 3,350,000	\$ 250,000
Capital Leases Payable	182,308		(31,721)	150,587	33,342
Compensated Absences*	44,664	1,716		46,380	-
Net Pension Liability	<u>3,829,949</u>	<u>1,495,721</u>		<u>5,325,670</u>	<u>-</u>
Totals	<u>\$ 4,536,921</u>	<u>\$4,482,437</u>	<u>\$(146,721)</u>	<u>\$ 8,872,637</u>	<u>\$ 283,342</u>

\*The change in sick and severance pay is shown as a net change because changes in salary prohibit exact calculations of additions and reductions.

Outstanding debt at June 30, 2016, are comprised of the following individual issues:

- A. Series 2011 General Obligation Bonds - From an original issuance of \$910,000 at rates of 1.75% to 2.85%, \$365,000 remains outstanding. Principal and interest is payable through June 1, 2019.
- B. Capital Leases - 4.99% lease agreement for equipment. The lease agreement calls for monthly payments of \$3,342.
- C. Series 2015A General Obligation Bonds - From an original issuance of \$810,000 at rates of 1.10% to 3.50%, \$810,000 remains outstanding. Principal and interest is payable through August 1, 2034.
- D. Series 2015B General Obligation Bonds - From an original issuance of \$450,000 at rates of 1.10% to 3.50%, \$450,000 remains outstanding. Principal and interest is payable through August 1, 2034.
- E. Series 2015C General Obligation Bonds - From an original issuance of \$1,725,000 at rates of 1.00% to 3.25%, \$1,725,000 remains outstanding. Principal and interest is payable through August 1, 2035.

The debt service requirements are as follows:

\$910,000 General Obligation School Building Bonds of 2011

(Dated March 10, 2011, Due serially to June 1, 2019)  
(Interest paid semiannually on December 1st and June 1st)

<u>Fiscal Year</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
12/1/2016		\$ -	\$ 4,781	\$ 4,781
6/1/2017	2.35%	120,000	4,781	124,781
12/1/2017		-	3,371	3,371
6/1/2018	2.65%	120,000	3,371	123,371
12/1/2018		-	1,781	1,781
6/1/2019	2.85%	<u>125,000</u>	<u>1,781</u>	<u>126,781</u>
		<u>\$ 365,000</u>	<u>\$ 19,866</u>	<u>\$ 384,866</u>

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Notes to Financial Statements - Continued**

Capital Lease				
Fiscal Year	Rate	Principal	Interest	Payment
6/30/2017	5.00%	\$ 33,342	\$ 6,762	\$ 40,104
6/30/2018	5.00%	35,046	5,058	40,104
6/30/2019	5.00%	35,837	4,267	40,104
6/30/2020	5.00%	38,720	1,384	40,104
6/30/2021	5.00%	7,642	2,382	10,024
		<u>\$ 150,587</u>	<u>\$ 19,853</u>	<u>\$ 170,440</u>

\$810,000 General Obligation Building Fund Bonds, Series 2015A

(Dated July 8, 2015, Due serially to August 1, 2034  
(Interest paid semiannually on February 1st and August 1st))

Fiscal Year	Rate	Principal	Interest	Payment
8/1/2016	1.10	\$ 35,000	\$ 11,353	\$ 46,353
2/1/2017		-	11,160	11,160
8/1/2017	1.10	35,000	11,160	46,160
2/1/2018		-	10,968	10,968
8/1/2018	1.10	35,000	10,968	45,968
2/1/2019		-	10,775	10,775
8/1/2019	2.00	35,000	10,775	45,775
2/1/2020		-	10,425	10,425
8/1/2020	2.00	40,000	10,425	50,425
2/1/2021		-	10,025	10,025
8/1/2021	2.00	40,000	10,025	50,025
2/1/2022		-	9,625	9,625
8/1/2022	2.00	40,000	9,625	49,625
2/1/2023 -		-	9,225	9,225
8/1/2034	3.00% - 3.50%	550,000	120,724	670,724
		<u>\$ 810,000</u>	<u>\$ 267,258</u>	<u>\$ 1,077,258</u>

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Notes to Financial Statements - Continued**

**\$450,000 General Obligation Building Fund Bonds, Series 2015B**

(Dated July 8, 2015, Due serially to August 1, 2034  
(Interest paid semiannually on February 1st and August 1st)

<u>Fiscal Year</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
8/1/2016	1.10	\$ 20,000	\$ 6,330	\$ 26,330
2/1/2017		-	6,220	6,220
8/1/2017	1.10	20,000	6,220	26,220
2/1/2018		-	6,110	6,110
8/1/2018	1.10	20,000	6,110	26,110
2/1/2019		-	6,000	6,000
8/1/2019	2.00	20,000	6,000	26,000
2/1/2020		-	5,800	5,800
8/1/2020	2.00	20,000	5,800	25,800
2/1/2021		-	5,600	5,600
8/1/2021	2.00	20,000	5,600	25,600
2/1/2022		-	5,400	5,400
8/1/2022	2.00	20,000	5,400	25,400
2/1/2023 -		-	5,200	5,200
8/1/2034	3.00% - 3.50%	310,000	68,700	378,700
		<u>\$ 450,000</u>	<u>\$ 150,490</u>	<u>\$ 600,490</u>

**\$1,725,000 General Obligation Building Fund Bonds, Series 2015C**

(Dated October 28, 2015, Due serially to August 1, 2035  
(Interest paid semiannually on February 1st and August 1st)

<u>Fiscal Year</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
8/1/2016	1.00	\$ 75,000	\$ 21,763	\$ 96,763
2/1/2017		-	21,388	21,388
8/1/2017	1.00	70,000	21,388	91,388
2/1/2018		-	21,038	21,038
8/1/2018	1.00	70,000	21,038	91,038
2/1/2019		-	20,688	20,688
8/1/2019	1.50	70,000	20,688	90,688
2/1/2020		-	20,163	20,163
8/1/2020	1.50	70,000	20,163	90,163
2/1/2021		-	19,638	19,638
8/1/2021	1.50	70,000	19,638	89,638
2/1/2022		-	19,113	19,113
8/1/2022	2.00	70,000	19,113	89,113
2/1/2023 -		-	18,413	18,413
8/1/2034	2.00% - 3.25%	1,230,000	279,768	1,509,768
		<u>\$ 1,725,000</u>	<u>\$ 564,000</u>	<u>\$ 2,219,000</u>

**NOTE 14 - DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources in the fund financial statements consist of amounts for which asset recognition criteria have been met. Under the modified accrual basis of accounting, such amounts are measurable but not available and include taxes receivables of \$51,253. Deferred inflows of resources on the statement of net position consist of related pension expense of \$155,829.

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Notes to Financial Statements - Continued**

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**NOTE 15 - DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows of resources in the fund financial statements consist of amounts for which liability recognition criteria have been met, but for which expense recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable but not available. Deferred outflows of resources on the statement of net position consist of related pension expense of \$1,173,860.

**NOTE 16 - RISK MANAGEMENT**

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The School District pays an annual premium to NDRIF for its general liability, auto and public assets insurance coverage. The coverage by NDRIF is limited to losses of \$2,000,000 per occurrence for general liability and auto coverage and \$71,340 for public assets coverage.

The School District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The School District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$175 million per occurrence during a twelve-month period. The State Bonding Fund currently provides political subdivision with blanket fidelity bond coverage in the amount of \$1,469,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The School District participates in the North Dakota Workforce Safety & Insurance and purchases commercial insurance for employee health and boiler and machinery insurance. Settled claims resulting from these above risks have not exceeded insurance coverage in any of the past three fiscal years.

The School District has elected to be self-insured and retain all risk for liabilities resulting from claims of unemployment benefits. During the year ended June 30, 2016, no claims were filed for unemployment benefits.

**NOTE 17 - PENSION PLANS**

**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.

**Pension Benefits**

For the purpose of determining pension benefits, members are classified within one of three categories. Tier 1 grandfathers 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.

## HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9

### Notes to Financial Statements - Continued

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#### *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 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 of 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 certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

#### *Tier 2*

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

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

#### **Death and Disability Benefits**

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

An active member is eligible to receive disability benefits when: (a) a total disability lasting 12 months or more does not allow the continuation of teaching, (b) the member has accumulated five years of credits 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 for age and uses the member's actual years of credited service. There is no actuarial reduction for reason of disability retirement.

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Notes to Financial Statements - Continued**

**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 teaches 100% funded ratio on an actuarial basis.

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70 ½. 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, Hillsboro Public School District No. 9 reported a liability of \$4,963,912 for its proportionate share of the net pension liability. The net pension liability was measured as of April 10, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial calculation as of that date. The School District's proportion of the net pension liability was based on the School District's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employees. At November 23, 2015 the School District's proportion was .379546% which was an increase of .013546% from its proportion measured as of April 10, 2015. For the year ended June 30, 2016, the School District recognized pension expenses of \$352,520. At June 30, 2016 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 32,528	\$ -
Changes in assumptions	557,362	-
Net difference between projected and actual investment earnings	-	55,975
Changes in proportion and differences between employer contributions and proportionate share of contributions	139,370	-
Employer contributions subsequent to the measurement date	<u>313,268</u>	<u>-</u>
Totals	<u>\$ 1,042,528</u>	<u>\$ 55,975</u>

\$313,268 reported as deferred outflows of resources related to pensions resulting from the School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended 2017

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

Year ended June 30:	
2017	\$ 80,157
2018	80,157
2019	80,157
2020	193,105
2021	122,388
Thereafter	117,322



**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Notes to Financial Statements - Continued**

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 measurement:

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

For 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 dates 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 8.00% to 7.75%.
- . Inflation assumption lowered from 3.00% to 2.75%.
- . Total salary scales rates lowered by 0.25% due to lower inflation.
- . Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- . Rates of turnover and retirement were changed to better reflect anticipated future experience.
- . Updated mortality assumption to the RP-2014 mortality tables with generational improvement.

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

Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	57%	7.53%
Global Fixed Income	22%	1.40%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

**Discount Rate**

The discount rate used to measure the total pension liability was 7.75% 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 8.00% to 7.75% based on the investment return assumption change as a result of the April 30, 2015 actuarial experience study.

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Notes to Financial Statements - Continued**

**Sensitivity of the School District's proportionate share of the net pension liability to changes in the discount rate**

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 6,560,044	\$ 4,963,912	\$ 3,632,771

**Pension plan fiduciary net position**

Detailed information is located in the North Dakota Retirement and Investments Office's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015. Additional financial and actuarial information is available on their website, [www.nd.gov/rio](http://www.nd.gov/rio), or may be obtained by writing to RIO at ND Retirement and Investment Office, 1930 Burnt Boat Drive, PO Box 7100, Bismarck, North Dakota, 58507-7100 or by calling (701) 328-9885.

**General Information about the NDPERS Pension Plan**

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees.

**Pension Benefits**

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

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

**Death and Disability Benefits**

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

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Notes to Financial Statements - Continued**

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

**Refunds of Member Account Balance**

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

**Member and Employer Contributions**

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

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

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

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

At June 30, 2016, the School District reported a liability of \$361,758 for its proportionate share of the net pension liability. The net pension liability was measured as of May 4, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School Board's proportion of the net pension liability was based on the School Board's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2016, the School District's proportion was .053201%.

For the year ended June 30, 2016, the Hillsboro Public School District No. 9 recognized pension expense of \$30,833. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 10,495	\$ -
Changes in assumptions	-	32,231
Net difference between projected and actual investment earnings	41,800	49,437
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	18,186
Employer contributions subsequent to the measurement date	<u>79,037</u>	<u>-</u>
Totals	<u>\$ 131,332</u>	<u>\$ 99,854</u>

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Notes to Financial Statements - Continued**

\$79,037 reported as deferred outflows of resources related to pensions resulting from School Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended 2017

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

Year ended June 30:		
2017	\$	(13,447)
2018		(13,447)
2019		(13,447)
2020		2,333
2021		(9,558)

**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 measurement:

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

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

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scales, and percent married assumption.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Fixed Income	5%	.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Notes to Financial Statements - Continued**

**Discount Rate**

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

**Sensitivity of the School Board's proportionate share of the net pension liability to changes in the discount rate**

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
School District's proportionate share of the net pension liability	\$ 554,737	\$ 361,758	\$ 203,865

**Pension plan fiduciary net position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. It is located in the North Dakota Public Employees Retirement System Comprehensive Annual Financial report for the fiscal year ended June 30, 2015. The supporting actuarial information is included in the June 30, 2015, GASB Statements No. 67 and 68 Accounting and Financial Reporting for Pensions actuarial valuation for each retirement plan. Additional financial and actuarial information is available on their website, [www.nd.gov/ndpers](http://www.nd.gov/ndpers), or may be obtained by contacting the agency at North Dakota Public Employees Retirement System, 400 E Broadway Ave Suite 505, P.O. Box 1657, Bismarck, ND, 58502-1657 or by calling (701) 328-3900.

**NOTE 18 - JOINT VENTURE**

The School District participates in the following joint venture:

Griggs-Steele-Trail Special Education Unit - Formed for the purpose of providing special education services to the member school Districts. The members of the Co-op and their relative percentage participation in the Co-op are as follows:

Central Valley	11.05%
Cooperstown	12.37%
Finely Sharon	10.51%
Mayville - Portland - Clifford - Galesberg	19.37%
Midkota	11.87%
Northwood	10.39%
Hatton	7.56%
Hillsboro	16.88%

The Co-op's governing board is composed of six representatives from the member school districts, who are superintendents. The Board is responsible for adopting the Co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The School District retains no equity in the net assets of the Co-op, but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation described above. Separate financial statements for this joint venture are available from Griggs-Steele-Trail Special Education Unit.

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Notes to Financial Statements - Continued**

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NOTE 19 - COMMITTED CONTRACTS

The School District is committed to a fitness center improvement with \$1,200,000 remaining at year end.

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**

Hillsboro, North Dakota

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

For the Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>				
Local Sources	\$ 1,188,846	\$ 1,188,846	\$ 1,224,846	\$ 36,000
State Sources	4,021,443	4,021,443	3,956,549	(64,894)
Federal Sources	157,369	157,369	159,457	2,088
Interest Income	8,700	8,700	9,064	364
Miscellaneous	<u>200,000</u>	<u>200,000</u>	<u>190,344</u>	<u>(9,656)</u>
Total Revenues	5,576,358	5,576,358	5,540,260	(36,098)
<b>EXPENDITURES</b>				
Current				
Regular Instruction	2,802,101	2,802,101	2,876,384	(74,283)
Special Instruction	247,433	247,433	247,433	-
Vocational Instruction	202,029	202,029	204,825	(2,796)
Pupil Services	382,820	382,820	375,906	6,914
General Administration Services	461,483	461,483	466,660	(5,177)
School Administration Services	131,114	131,114	135,066	(3,952)
Operation and Maintenance	563,316	563,316	540,692	22,624
Pupil Transportation	511,171	511,171	508,346	2,825
Student Activities	220,006	220,006	321,764	(101,758)
School Food Services	6,350	6,350	6,408	(58)
Community Services	102,024	102,024	105,165	(3,141)
Debt Services				
Principal	40,108	40,108	31,721	8,387
Interest and Other Charges	<u>-</u>	<u>-</u>	<u>8,386</u>	<u>(8,386)</u>
Total Expenditures	<u>5,669,955</u>	<u>5,669,955</u>	<u>5,828,756</u>	<u>(158,801)</u>
Excess of Revenues over Expenditures	<u>(93,597)</u>	<u>(93,597)</u>	<u>(288,496)</u>	<u>(194,899)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (93,597)</u>	<u>\$ (93,597)</u>	<u>(288,496)</u>	<u>\$ (194,899)</u>
FUND BALANCE, BEGINNING OF YEAR			<u>1,125,869</u>	
FUND BALANCE, END OF YEAR			<u>\$ 837,373</u>	

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**

**Hillsboro, North Dakota**

**PENSION SCHEDULES**

**For the Year Ended June 30, 2016**

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

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District's proportion of the net pension liability (asset)	0.379546 %
District's proportionate share of the net pension liability (asset)	4,963,912
District's covered-employee payroll	2,334,605
District proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	212.62%
Plan fiduciary net position as a percentage of the total pension liability	62.10 %

---

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

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Statutorily required contribution	297,648
Contributions in relation to statutorily required contribution	(297,648)
Contribution deficiency (excess)	-
Employer's covered-employee payroll	2,334,605
Contributions as a percentage of covered-employee payroll	12.75 %

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

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District's proportion of the net pension liability (asset)	0.053201 %
District's proportionate share of the net pension liability (asset)	361,758
District's covered-employee payroll	473,954
District proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	76.33 %
Plan fiduciary net position as a percentage of the total pension liability	77.15 %

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

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Statutorily required contribution	36,001
Contributions in relation to statutorily required contribution	(33,440)
Contribution deficiency (excess)	2,561
Employer's covered-employee payroll	473,954
Contributions as a percentage of covered-employee payroll	7.60 %

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



**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Hillsboro, North Dakota**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2016**

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**NOTE 1 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Information**

The Board of Education adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States for the general fund.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- The annual budget must be prepared and school district taxes must be levied on or before the fifteenth day of August of each year.
- The taxes levied must be certified to the county auditor by October tenth.
- The operating budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the business manager at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.
- All appropriations lapse at year-end

**NOTE 2 - PENSIONS - CHANGES OF ASSUMPTIONS**

**ND Teachers' Fund for Retirement (TFFR)**

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

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

**ND Public Employees Retirement System (NDPERS)**

Amounts reported in 2016 reflect actuarial assumption changes effective July 1, 2015 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Hillsboro, North Dakota**

**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2016**

	<u>Special Revenue</u>		Total Nonmajor Governmental Funds
	<u>Food Service</u>	<u>Special Reserve</u>	
<b>ASSETS</b>			
Cash and Investments	\$ 76,111	\$ 116,163	\$ 192,274
Due from County	-	654	654
Due from State Government	7,580	-	7,580
Due from Other Funds	-	-	-
Inventory	5,638	-	5,638
Taxes Receivable	-	609	609
<b>Total Assets</b>	<u>\$ 89,329</u>	<u>\$ 117,426</u>	<u>\$ 206,755</u>
<b>LIABILITIES</b>			
Due to Other Funds	\$ 3,005	\$ -	\$ 3,005
<b>Total Liabilities</b>	3,005	-	3,005
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Revenue	-	609	609
<b>Total Liabilities and Deferred Inflows of Resources</b>	3,005	609	3,614
<b>FUND BALANCE</b>			
Nonspendable	5,638	-	5,638
Restricted	-	116,817	116,817
Assigned	80,686	-	80,686
<b>Total Fund Balances</b>	<u>86,324</u>	<u>116,817</u>	<u>203,141</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<u>\$ 89,329</u>	<u>\$ 117,426</u>	<u>\$ 206,755</u>

See Notes to Financial Statements

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Hillsboro, North Dakota**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2016**

	<u>Special Revenue</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service</u>	<u>Special Reserve</u>	
<b>Revenues</b>			
Local Sources	\$ 180,831	\$ 16,772	\$ 197,603
State Sources	3,014	-	3,014
Federal Sources	102,922	-	102,922
Interest Income	-	32	32
Total Revenues	<u>286,767</u>	<u>16,804</u>	<u>303,571</u>
<b>Expenditures</b>			
Current:			
School Food Services	296,050	-	296,050
Debt Service:			
Principal	-	-	-
Interest and Other Charges	-	-	-
Capital Outlay:			
Facilities Acquisition and Construction	-	-	-
Total Expenditures	<u>296,050</u>	<u>-</u>	<u>296,050</u>
Excess (Deficiency) of Revenues over Expenditures	(9,283)	16,804	7,521
Fund Balance, Beginning of Year	<u>95,607</u>	<u>100,013</u>	<u>195,620</u>
Fund Balance, End of Year	<u>\$ 86,324</u>	<u>\$ 116,817</u>	<u>\$ 203,141</u>



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

**INDEPENDENT AUDITOR'S REPORT**

School Board  
Hillsboro Public School District No. 9  
Hillsboro, North Dakota 58045

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to finance 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 Hillsboro Public School District No. 9, Hillsboro, North Dakota as of and the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Hillsboro Public School District No. 9's basic financial statements, and have issued my report thereon dated May 10, 2017.

**Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered Hillsboro Public School District No. 9's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hillsboro Public School District No. 9's internal control. Accordingly, I do not express an opinion on the effectiveness of the School District's internal control.

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

My 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. I did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs (16.1), that I consider to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Hillsboro Public School District No. 9's financial statements are free from material misstatement, I 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 these provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

## School District's Response to Findings

Hillsboro Public School District No. 9's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. Hillsboro Public School District No. 9's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

## Purpose of this Report

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

*Nadine Julson, LLC*

Nadine Julson, LLC  
Wahpeton, North Dakota  
May 10, 2017

**HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9**  
**Hillsboro, North Dakota**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2016**

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**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

Financial Statements

Type of Report Issued:	
Governmental Activities	Unmodified
Major Governmental Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal Control Over Financial Reporting

Material weakness identified?	<u>          </u>	Yes	<u>      X      </u>	No
Significant deficiencies identified not considered to be material weaknesses?	<u>      X      </u>	Yes	<u>          </u>	None Reported
Noncompliance material to financial statements noted?	<u>          </u>	Yes	<u>      X      </u>	No

**SECTION II - FINANCIAL STATEMENT FINDINGS**

*16.1 LACK OF SEGREGATION OF DUTIES*

**Condition:**

As part of obtaining reasonable assurance about whether Hillsboro Public School District No. 9's financial statements are free from material misstatement, I 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 these provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

**Criteria:**

Proper internal control surrounding custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates that there should be sufficient accounting personnel so duties of employees are properly segregated. More segregation of duties would provide better control over the assets of the School District.

**Effect:**

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the School District's financial condition whether due to error or fraud.

**Recommendation:**

I recommend that if it becomes feasible to segregate further duties in the future, that duties are segregated to the greatest extent possible to reduce the potential risk of loss. I also recommend that the superintendent and/or board indicate the review of expenditures on invoices.

**Views of Responsible Officials:**

The changes for segregation of duties implemented last year continue to be followed. The Business Manager still makes some deposits, but generally checks are received in the mail that the Superintendent has seen. We hired a high school summer secretary to help with duties including recording receipts and making deposits during the time when the regular secretary is off for the summer break.



Hillsboro Public School District No. 9  
Hillsboro, North Dakota

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and aggregate remaining fund information of the Hillsboro Public School District No. 9 as of and for the year ended June 30, 2016, which collectively comprise the Hillsboro Public School District No. 9's basic financial statements and have issued my report thereon dated May 10, 2017. Professional standards require that I provide you with the following information related to my audit.

#### **OUR RESPONSIBILITIES UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS, GOVERNMENT AUDITING STANDARDS AND THE UNIFORM GUIDANCE**

As stated in my engagement letter dated July 1, 2016, my responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. My audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing my audit, I considered Hillsboro Public School District No. 9's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. I also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether Hillsboro Public School District No. 9's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of my audit. Also in accordance with the Uniform Guidance, I examined, on a test basis, evidence about Hillsboro Public School District No. 9's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on Hillsboro Public School District No. 9's compliance with those requirements. While my audit provides a reasonable basis for my opinion, it does not provide a legal determination on Hillsboro Public School District No. 9's compliance with those requirements.

#### **SIGNIFICANT ACCOUNTING POLICIES/QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Hillsboro Public School District No. 9 are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016. I noted no transactions entered by the governmental unit during the year which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

## **CORRECTED AND UNCORRECTED MISSTATEMENTS**

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

## **DISAGREEMENTS WITH MANAGEMENT**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, or reporting matter that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

## **MANAGEMENT REPRESENTATIONS**

I have requested certain representations from management that are included in the management representation letter dated May 10, 2017.

## **MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS**

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

## **DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

I encountered no significant difficulties in dealing with management in performing and completing my audit.

## **OTHER AUDIT FINDINGS OR ISSUES**

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

## **OTHER MATTERS**

I applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. My procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

I was engaged to report on supplementary information, which accompany the financial statements but are not RSI. With respect to this supplementary information, I made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to my audit of the financial statements. I compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

I was not engaged to report on other information accompanying the financial statements, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.



**RESTRICTION ON USE**

This information is intended solely for the use of the Board of Education and management of the Hillsboro Public School District No. 9 and should not be used for any other purpose. However, this report is a matter of public record, and its distribution is not limited.

Thank you and the employees of Hillsboro Public School District No. 9 for the courteous and friendly assistance I received during the course of my audit. It is a pleasure for me to be able to service the Hillsboro Public School District No. 9.

*Nadine Julson, LLC*

Nadine Julson, LLC  
Wahpeton, North Dakota  
May 10, 2017