Mahlum Goodhart, PC
Certified Public Accountants

MOHALL LANSFORD SHERWOOD PUBLIC SCHOOL DISTRICT NO. 1

AUDIT REPORT

JUNE 30, 2016

MOHALL LANSFORD SHERWOOD PUBLIC SCHOOL DISTRICT NO. 1
MOHALL, NORTH DAKOTA

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For The Year Ended June 30, 2016

INDEPENDENT AUDITOR'S REPORT

Governing Board
Mohall Lansford Sherwood Public School District No. 1
Mohall, North Dakota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mohall Lansford Sherwood Public School District No. 1, Mohall, North Dakota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 error or fraud.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

204 East Main Street | Mandan, North Dakota 58554 | Phone: 701.663.9345 | Web: mg-cpas.com

INDEPENDENT AUDITOR'S REPORT

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, each major fund, and the aggregate remaining fund information of Mohall Lansford Sherwood Public School District No. 1 as of June 30, 2016, and the respective changes in financial position – modified cash basis, thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Disclaimer of Opinion on Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mohall Lansford Sherwood Public School District No. 1's basic financial statements. The District's share of net pension liability and employer contributions – ND Teachers' Fund for Retirement on page 29, share of net pension liability and employer contributions – ND Public Employees Retirement System on page 30, and budgetary comparison information on pages 31-32, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide assurance on it.

INDEPENDENT AUDITOR'S REPORT

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2017 on our consideration of Mohall Lansford Sherwood Public School District No. 1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mohall Lansford Sherwood Public School District No. 1's internal control over financial reporting and compliance.

Mahlum Goodhart pc

Mahlum Goodhart, PC
Mandan, North Dakota
August 8, 2017

Mohall Lansford Sherwood Public School District No. 1
Statement of Net Position - Modified Cash Basis
June 30, 2016

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	$ 1,791,331
Investments	220,510
Capital Assets	
Land	101,088
Construction in Progress	48,457
Buildings & Improvements	7,331,469
Machinery & Equipment	1,005,900
Vehicles	935,662
Less Accumulated Depreciation	(3,563,728)
Total Capital Assets, Net of Depreciation	5,858,848
TOTAL ASSETS	7,870,689
DEFERRED OUTFLOWS OF RESOURCES	
Derived from Pensions	945,658
LIABILITIES	
Long-Term Liabilities:	
Portion Due or Payable within One Year	
Loans Payable	16,003
Bonds Payable	125,000
Portion Due or Payable after One Year	
Net Pension Liability	5,076,516
Loans Payable	16,473
Bonds Payable	890,000
Total Liabilities	6,123,992
DEFERRED INFLOWS OF RESOURCES	
Derived from Pensions	246,000
NET POSITION	
Net Investment in Capital Assets	4,811,372
Restricted for:	
Capital Projects	295,392
Debt Service	-
Unrestricted	(2,660,409)
Total Net Position	$ 2,446,355

The accompanying notes are an integral part of this statement.

Mohall Lansford Sherwood Public School District No. 1
Statement of Activities - Modified Cash Basis
For the year ended June 30, 2016

		Program Revenues		Net (Expense) Revenue & Changes in Net Position
	Expenses	Charges for Services	Operating Grants & Contributions	Governmental Activities
Functions/Programs				
Governmental Activities				
Instruction & Instruction-Related Services	$ 3,442,299	$ 12,000	$ 242,118	$ (3,188,181)
School Administration & Support Services	984,633	-	-	(984,633)
Student Support Services	910,835	91,412	71,473	(747,950)
Interest on Long-Term Debt	16,628	-	-	(16,628)
Total Primary Government	$ 5,354,395	$ 103,412	$ 313,591	(4,937,392)

General Revenues:	
Taxes:	
Property Taxes, Levied for General Purpose	1,264,648
Property Taxes, Levied for Capital Projects	123,227
Property Taxes, Levied for Asbestos Bonding	136,962
Gas & Oil Funding	345,071
State Aid	3,022,800
Tuituion Charges	2,000
In Lieu of Taxes	21,961
Unrestricted Investment Earnings	6,568
Other Revenues	100,602
Total General Revenues	5,023,839
Change in Net Position	86,447
Net Position - Beginning of Year	2,359,908
Net Position - End of Year	$ 2,446,355

The accompanying notes are an integral part of this statement.

Mohall Lansford Sherwood Public School District No. 1
Balance Sheet - Governmental Funds - Modified Cash Basis
June 30, 2016

	Major Funds			
	General	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	$ 1,253,507	$ 295,392	$ 242,432	$ 1,791,331
Investments	220,510	-	-	220,510
Total Assets	$ 1,474,017	$ 295,392	$ 242,432	$ 2,011,841
FUND BALANCES				
Restricted for Capital Projects	$ -	$ -	$ 187,857	$ 187,857
Restricted for Debt Service	-	295,392	-	295,392
Assigned - Food Service	-	-	54,575	54,575
Unassigned	1,474,017	-	-	1,474,017
Total Fund Balances	$ 1,474,017	$ 295,392	$ 242,432	$ 2,011,841

Total fund balances - governmental funds	$ 2,011,841
Amounts reported for *governmental activities* in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is $9,422,576, and the accumulated depreciation is $3,563,728.	5,858,848
Deferred outflows of resources are not a financial resource available for the current period and, therefore, are not reported in the governmental funds balance sheet.	945,658
The net pension liability is not due and payable in the current period and, therefore, is not reported in the governmental funds balance sheet.	(5,076,516)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.	(246,000)
Some liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Long-term debt	(1,047,476)
Net position of governmental activities	$ 2,446,355

The accompanying notes are an integral part of this statement.

Mohall Lansford Sherwood Public School District No. 1
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds - Modified Cash Basis
For the year ended June 30, 2016

	Major Funds			
	General	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property Taxes	$ 1,271,845	$ 136,962	$ 123,227	$ 1,532,034
Revenue in Lieu of Property Taxes	21,794	-	-	21,794
Oil & Gas	345,071	-	-	345,071
Tuition Charges	2,000	-	-	2,000
Fees and Charges	-	-	95,568	95,568
State Aid	3,090,903	-	2,582	3,093,485
Federal Aid	174,182	-	68,891	243,073
Earnings on Investments	5,773	222	573	6,568
Other Sources	95,059	-	6,190	101,249
TOTAL REVENUES	5,006,627	137,184	297,031	5,440,842
EXPENDITURES				
Current:				
Regular Education Programs	2,274,973	-	-	2,274,973
Title I	63,852	-	-	63,852
Nutrition Education & Training	260	-	-	260
Title II	39,270	-	-	39,270
Other Federal Programs	8,973	-	-	8,973
Instructional Media Service	109,437	-	-	109,437
School Board	96,739	-	-	96,739
Executive Administration	238,182	-	-	238,182
Supportive Service - Business	70,531	-	-	70,531
Operation & Maintenance	445,455	-	-	445,455
Student Activities	247,340	-	-	247,340
Student Transportation	394,715	-	-	394,715
Vocational Education	256,695	-	-	256,695
Special Education	438,828	-	-	438,828
Food Service	117,084	-	159,030	276,114
Capital Outlay	-	-	181,877	181,877
Debt Service:				
Principal	140,538	-	-	140,538
Interest	16,628	-	-	16,628
TOTAL EXPENDITURES	4,959,500	-	340,907	5,300,407
Excess (Deficiency) of Revenues Over (Under) Expenditures	47,127	137,184	(43,876)	140,435
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	67,617	(140,613)	72,996	-
TOTAL OTHER FINANCING SOURCES (USES)	67,617	(140,613)	72,996	-
NET CHANGE IN FUND BALANCES	114,744	(3,429)	29,120	140,435
Fund Balances - July 1, 2015	1,359,273	298,821	213,312	1,871,406
FUND BALANCES - JUNE 30, 2016	$ 1,474,017	$ 295,392	$ 242,432	$ 2,011,841

The accompanying notes are an integral part of this statement.

Mohall Lansford Sherwood Public School District No. 1
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities - Modified Cash Basis
For the year ended June 30, 2016

Net change in fund balances - total governmental funds		$ 140,435
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The effects of various transactions involving capital assets consist of:		
Capital assets purchased in the current period	$ 218,605	
Depreciation expense of capital assets reported	(387,700)	(169,095)
The issuance of debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Payment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This amount is the net effect of these differences in the treatment of long-term debt.		
Payment of long-term debt principal	140,538	140,538
Governmental funds report the pension expense as accrued for actual salaries paid in the expenditures. However in the statement of activities, the pension expense is an actuarial calculation of the cost of the plan accounting for projected future benefits, plan earnings, and contributions.		(25,431)
Change in net position of governmental activities		$ 86,447

The accompanying notes are an integral part of this statement.

Mohall Lansford Sherwood Public School District No. 1
Statement of Fiduciary Net Position - Modified Cash Basis
June 30, 2016

	Private-Purpose Trust	Agency Funds
ASSETS		
Cash and Cash Equivalents	$ 12,472	$ 712,808
Certificates of Deposit	150,437	-
Total Assets	$ 162,909	$ 712,808
LIABILITIES		
Due to Student Groups and Others		$ 712,808
NET POSITION		
Reserved for Scholarships	$ 162,909	

The accompanying notes are an integral part of this statement.

Mohall Lansford Sherwood Public School District No. 1
Statement of Changes in Fiduciary Net Position - Modified Cash Basis
For the year ended June 30, 2016

	Private-Purpose Trust
Revenues	
Interest and Donations	$ 1,364
Expenses	
Scholarships Awarded	1,645
Change in Net Position	(281)
Net Position - July 1, 2015	163,190
Net Position - June 30, 2016	$ 162,909

The accompanying notes are an integral part of this statement.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mohall Lansford Sherwood Public School District No. 1's financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

A. Reporting Entity

In accordance with Governmental Accounting Standards Board Statement No. 14 *The Financial Reporting Entity*, for financial reporting purposes the District's financial statements include all accounts of the District's operations. The criteria for including organizations as component units within the District's reporting entity include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is a fiscal dependency by the organization on the District

The District receives funding from local, county, state and federal government sources and must comply with the concomitant requirements of these funding source entities. But, based upon the criteria of Statement No. 14, there are no component units to be included within the District as a reporting entity and the District is not includable as a component unit within another reporting entity.

B. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and the Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are supported by taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Currently, the District does not classify any activities as business-type.

The Statement of Activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Separate statements are presented for governmental, proprietary and fiduciary activities. The District has no proprietary activities at this time. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources. The District has presented the following major funds:

General Fund: The General Fund is the main operating fund of the District. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund: This fund accounts for the accumulation of financial resources for the payment of principal, interest and related costs on long-term debt paid by the District.

The reporting focus of fiduciary funds is on net position and changes in net position. These funds account for assets held by the District in a purely custodial capacity and are not included in the government-wide statements. The District has two fiduciary funds.

Private Purpose Trust Fund: This fund accounts for the financial transactions of several scholarships.

Agency Fund: This fund accounts for the financial transactions related to the District’s student activity programs and flex benefit programs. This fund is custodial in nature therefore it does not report the measurement of results of operations.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when transactions are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus, within the limitations of the modified cash basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net position. Under the modified cash basis of accounting, the District recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

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

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the District utilized the basis of accounting recognized as generally accepted, the fund financial statements would use modified accrual. All government-wide financials would be presented on the accrual basis of accounting.

Fiduciary funds also use the economic resources measurement focus.

D. Interfund Transactions

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of governmental funds.

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.

E. Encumbrance Accounting

Encumbrances are commitments related to unperformed contracts for goods and services that may be recorded for budgetary control purposes. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. No reservation of fund balances is provided at year-end.

F. Cash and Cash Equivalents

Cash and cash equivalents consist of amounts in demand deposits, savings accounts, and certificates of deposit with a maturity of three months or less when purchased.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Credit Risk:

The District may invest idle funds as authorized in North Dakota Statutes, 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.

Investments are stated at fair value for debt securities as required by GASB 31 and cost for certificates of deposit. All investments are reported at current fair market value.

The District has not adopted a policy limiting the amount that can be invested with any one issuer.

G. Inventory

A food inventory for the Food Service Fund is not recorded at year end because it is immaterial. School supplies are considered to be an expense in the year they are appropriated.

H. Property Taxes

Property taxes attach as an enforceable lien on property January 1. A five percent reduction is allowed if paid by February 15. Penalty and interest are added March 15 if the first half of the taxes has not been paid. Additional penalties are added October 15, if not paid. Taxes are collected by the county and remitted monthly to the District. Property taxes are limited by state laws. All District tax levies are in compliance with state laws.

I. Capital Assets

Capital assets, which include land, buildings and improvements, machinery and equipment, and vehicles are reported in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Assets capitalized have an original cost of $5,000 or more (either individually or collectively) and a useful life of more than one year. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and Improvements	30 years
Machinery and Equipment	3 – 15 years
Vehicles	4 – 8 years

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

J. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the school board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. In the statement of net position, the restricted for capital projects and debt service are both restricted because of the taxes levied.

K. Fund Balance Classifications

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

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

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

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

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

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

When both restricted and unrestricted resources are available for use, the District's preference is to first use restricted resources, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

L. Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows or resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. See Note 5 for additional information.

M. Pensions

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

NOTE 2 DEPOSITS – CASH AND INVESTMENTS

In accordance with North Dakota statutes, the District maintains deposits at depository banks designated by the governing board. All depositories are members of the Federal Reserve System. The District does have a deposit policy which requires all cash accounts to be held at local banks.

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

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of 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 entity, and bonds issued by any other state of the United States or such other securities approved by the banking board.

As of June 30, 2016, the District's carrying balances were $2,011,841 for governmental funds and $875,717 for agency funds. The bank balance of these deposits as of June 30, 2016 was $3,045,148. Of the bank balances, $304,939 was covered by Federal Depository Insurance and $2,740,209 was collateralized with securities held by the pledging financial institutions' agent, not in the District's name. The District's pledges are sufficient to cover the 110% requirement. During the fiscal year ended June 30, 2016, the board did review the pledge of securities semi-annually as required by state law.

At June 30, 2016, the District's investments included certificates of deposit. The interest rates on the certificates of deposit range from 0.40 percent to 0.55 percent with maturities of twelve or twenty-four months. At June 30, 2016 the certificates of deposit had a balance of $220,510.

NOTE 3 CAPITAL ASSETS

Capital assets consist of the following as of June 30, 2016:

Capital assets not being depreciated:	
Land	$ 101,088
Construction in Progress	48,457
Total capital assets not being depreciated	149,545
Capital assets being depreciated:	
Buildings & Improvements	7,331,469
Machinery & Equipment	1,005,900
Vehicles	935,662
Total capital assets being depreciated	9,273,031
Less accumulated depreciation	(3,563,728)
Net capital assets being depreciated	5,709,303
Total capital assets, net of depreciation	$ 5,858,848

Depreciation expense for the year ended June 30, 2016 was $387,700 and is reported in the government-wide statement of activities under instruction & instruction-related services, school administration and support services, and student support services.

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

	Capital Assets	Accumulated Depreciation
Balance, June 30, 2015	$ 9,280,671	$ 3,252,728
Purchases	218,605	-
Dispositions	(76,700)	(76,700)
Current Year Depreciation Expense	-	387,700
Balance, June 30, 2016	$ 9,422,576	$ 3,563,728

NOTE 4 LONG-TERM DEBT

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

Loans Payable:	
The District has a loan with Citizens State Bank at Mohall for a bus. The loan has an interest rate of 3%, matures in August 2017, and requires annual payments of $16,979.	$ 32,476
Bonds Payable:	
$1,265,000 Limited Tax Bonds, Series 2013 dated June 27, 2013, bond discount of $15,053, due in annual installments of $105,000 to $135,000 through August 1, 2023; interest at 0.40% to 2.10%.	1,015,000
Total Long-Term Debt	$ 1,047,476

NOTE 4 LONG-TERM DEBT – CONTINUED

Following is a summary of long-term debt activity for the year ended June 30, 2016:

	Loans Payable	Bonds Payable	Total Debt
Payable, June 30, 2015	$ 48,014	$ 1,140,000	$ 1,188,014
Issued	-	-	-
Paid	(15,538)	(125,000)	(140,538)
Payable, June 30, 2016	$ 32,476	$ 1,015,000	$ 1,047,476
Current Portion	$ 16,003	$ 125,000	$ 141,003

Principal and interest payments required for the capital leases and loans are as follows:

For the year ended June 30,	Principal	Interest	Total
2017	$ 141,003	$ 15,476	$ 156,479
2018	141,473	14,120	155,593
2019	130,000	12,310	142,310
2020	130,000	10,555	140,555
2021	130,000	8,540	138,540
2022-2024	375,000	10,946	385,946
Total	$ 1,047,476	$ 71,947	$ 1,119,423

NOTE 5 DEFERRED OUTFLOWS AND INFLOWS OF REOURCES (PENSIONS)

Details of the Deferred Outflows of Resources and Deferred Inflows of Resources on the face of the financial statements as of June 30, 2016 are as follows:

Deferred Outflows of Resources	
Derived from pension - TFFR	$ 848,405
Derived from pension - NDPERS	97,253
Total	$ 945,658
Deferred Inflows of Resources	
Derived from pension - TFFR	$ 187,809
Derived from pension - NDPERS	58,191
Total	$ 246,000

Note 6 of the financial statements contains details of the pension plans.

NOTE 6 PENSION PLANS

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

Tier 1 Grandfathered

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

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

NOTE 6 PENSION PLANS – CONTINUED

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

Tier 2

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

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

Death and Disability Benefits

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

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

Member and Employer Contributions

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

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

NOTE 6 PENSION PLANS – CONTINUED

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

At June 30, 2016, the District reported a liability of $4,818,884 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2015, the District's proportion was 0.368457%, which was a decrease of 0.013437% from its proportion measured as of July 1, 2014.

For the year ended June 30, 2016, the District recognized pension expense of $297,426. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 31,578	$ -
Changes of assumptions	541,078	-
Net difference between projected and actual earnings on pension plan investments	-	54,340
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	133,469
Employer contributions subsequent to the measurement date (see below)	275,749	-
Total	$ 848,405	$ 187,809

$275,749 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pensions liability in the year ended June 30, 2017.

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

For the year ended June 30,	
2017	$ 33,021
2018	33,021
2019	33,021
2020	142,669
2021	74,018
Thereafter	69,099

NOTE 6 PENSION PLANS – 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 the measurement:

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

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

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

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (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%	7.5%
Global Fixed Income	22%	1.3%
Global Real Assets	20%	5.4%
Cash Equivalents	1%	0.0%

NOTE 6 PENSION PLANS – CONTINUED

Discount Rate

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

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Employer's proportionate share of the net pension liability	$ 6,368,383	$ 4,818,884	$ 3,526,634

Pension plan fiduciary net position

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

2. North Dakota Public Employees Retirement System (Main System)

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

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

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

NOTE 6 PENSION PLANS – CONTINUED

Pension Benefits

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

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

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

NOTE 6 PENSION PLANS – CONTINUED

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

1 to 12 months of service – Greater of one percent of monthly salary or $25
13 to 24 months of service – Greater of two percent of monthly salary or $25
25 to 36 months of service – Greater of three percent of monthly salary or $25
Longer than 36 months of service – Greater of four percent of monthly salary or $25

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

At June 30, 2016, the District reported a liability of $257,632 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015 and total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At July 1, 2015, the District's proportion was 0.037888 percent, which was an increase of 0.005311 percent from its proportion measured as of July 1, 2014.

For the year ended June 30, 2016, the District recognized pension expense of $31,108. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 7,474	$ -
Changes of assumptions	-	22,954
Net difference between projected and actual earnings on pension plan investments	29,769	35,207
Changes in proportion and differences between employer contributions and proportionate share of contributions	32,642	30
Employer contributions subsequent to the measurement date (see below)	27,368	-
Total	$ 97,253	$ 58,191

$27,368 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

NOTE 6 PENSION PLANS – CONTINUED

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

For the year ended June 30,		
2017	$	(427)
2018		(427)
2019		(427)
2020		10,812
2021		2,162
Thereafter		-

Actuarial Assumptions

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

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

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

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

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

NOTE 6 PENSION PLANS – CONTINUED

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%	0.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2015, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected 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 Employer's proportionate share of the net pension liability to changes in the discount rate

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

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employer's proportionate share of the net pension liability	$ 395,066	$ 257,632	$ 145,186

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 7 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund.

The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of two million dollars per occurrence during a 12-month period. The State-bonding Fund currently provides the District with blanket fidelity bond coverage in the amount of $250,000 for its employees. The State-bonding Fund does not currently charge any premium for this coverage.

The District participates in workers' compensation and purchases commercial insurance for employee health and accident insurance. Any settled claims from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 8 NONMONETARY TRANSACTIONS

The District receives food commodities from the federal government to subsidize the hot lunch program. The market value of commodities received for the year ended June 30, 2016 was $15,567.

NOTE 9 EXPENSES IN EXCESS OF BUDGET

For the fiscal year ended June 30, 2016, certain individual line items were over budget, but as a whole the expenses were under budget by $28,289. No remedial action is anticipated.

SUPPLEMENTARY INFORMATION

MOHALL LANSFORD SHERWOOD PUBLIC SCHOOL DISTRICT NO. 1
Supplementary Information
For the Year Ended June 30, 2016

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

	2016	2015
Employer's proportion of the net pension liability (asset)	0.368457%	0.381894%
Employer's proportionate share of the net pension liability (asset)	$ 4,818,884	$ 4,001,572
Employer's covered-employee payroll	$ 2,266,395	$ 2,215,188
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	212.63%	180.64%
Plan fiduciary net position as a percentage of the total pension liability	62.1%	66.6%

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

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

	2016	2015
Statutorily required contribution	$ 288,952	$ 238,131
Contributions in relation to the statutorily required contribution	$ (288,952)	$ (238,131)
Contribution deficiency (excess)	$ -	$ -
Employer's covered-employee payroll	$ 2,266,395	$ 2,215,188
Contributions as a percentage of covered-employee payroll	12.75%	10.75%

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

Data reported is measured as of 7/1/2015 and 7/1/2014.

MOHALL LANSFORD SHERWOOD PUBLIC SCHOOL DISTRICT NO. 1
Supplementary Information
For the Year Ended June 30, 2016

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

	2016	2015
Employer's proportion of the net pension liability (asset)	0.037888%	0.032577%
Employer's proportionate share of the net pension liability (asset)	$ 257,632	$ 206,773
Employer's covered-employee payroll	$ 337,539	$ 274,430
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	77.15%	77.70%

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

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

	2016	2015
Statutorily required contribution	$ 25,639	$ 19,539
Contributions in relation to the statutorily required contribution	$ (25,603)	$ (19,539)
Contribution deficiency (excess)	$ 36	$ -
Employer's covered-employee payroll	$ 337,539	$ 274,430
Contributions as a percentage of covered-employee payroll	7.60%	7.12%

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

Data reported is measured as of 7/1/2015 and 7/1/2014.

Mohall Lansford Sherwood Public School District No. 1
Budgetary Comparison Schedule - General Fund - Modified Cash Basis
For the year ended June 30, 2016

	Budgeted Amounts			
	Original	Final	Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property Taxes	$ 1,224,664	$ 1,224,664	$ 1,271,845	$ 47,181
Revenue in Lieu of Taxes	22,000	22,000	21,794	(206)
Oil & Gas	281,996	281,996	345,071	63,075
Tuition Charges	-	-	2,000	2,000
Fees and Charges	30,000	30,000	-	(30,000)
State Aid	3,021,810	3,021,810	3,090,903	69,093
Federal Aid	133,767	133,767	174,182	40,415
Earnings on Investments	-	-	5,773	5,773
Other Sources	211,716	211,716	95,059	(116,657)
TOTAL REVENUES	4,925,953	4,925,953	5,006,627	80,674
EXPENDITURES				
Current:				
Regular Education Programs	2,211,958	2,211,958	2,274,973	(63,015)
Title I	62,000	62,000	63,852	(1,852)
Nutrition Education & Training	28,275	28,275	260	28,015
Title II	36,876	36,876	39,270	(2,394)
Other Federal Programs	-	-	8,973	(8,973)
Instructional Media Service	117,378	117,378	109,437	7,941
School Board	72,659	72,659	96,739	(24,080)
Executive Administration	236,236	236,236	238,182	(1,946)
Supportive Service - Business	69,594	69,594	70,531	(937)
Operation & Maintenance	599,924	599,924	445,455	154,469
Student Activities	259,151	259,151	247,340	11,811
Student Transportation	346,439	346,439	394,715	(48,276)
Vocational Education	339,166	339,166	256,695	82,471
Special Education	482,900	482,900	438,828	44,072
Food Service	125,233	125,233	117,084	8,149
Debt Service:				
Principal	-	-	140,538	(140,538)
Interest	-	-	16,628	(16,628)
TOTAL EXPENDITURES	4,987,789	4,987,789	4,959,500	28,289
Excess (Deficiency) of Revenues Over (Under) Expenditures	(61,836)	(61,836)	47,127	108,963
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	140,000	140,000	67,617	(72,383)
TOTAL OTHER FINANCING SOURCES (USES)	140,000	140,000	67,617	(72,383)
NET CHANGE IN FUND BALANCES	78,164	78,164	114,744	36,580
Fund Balances - July 1, 2015	1,359,273	1,359,273	1,359,273	-
FUND BALANCES - JUNE 30, 2016	$ 1,437,437	$ 1,437,437	$ 1,474,017	$ 36,580

The accompanying notes are an integral part of this statement.

NOTE 1 CHANGES OF ASSUMPTIONS – ND TEACHERS' FUND FOR RETIREMENT

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.

NOTE 2 CHANGES OF ASSUMPTIONS – ND PUBLIC EMPLOYEES RETIREMENT SYSTEM

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.

NOTE 3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The District adopts an annual budget consistent with accounting principles generally accepted in the United States for the general fund only. The following procedures are used 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 August 15 each year.

- The taxes levied must be certified to the county auditor by August 25. The governing body of the school district may amend its tax levy and budget on or before October 10 of each year but the certification must be filed with the county auditor within the time limitations as outlined in NDCC section 57-15-31.1.

- 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.

- The balance of each appropriation becomes a part of the unappropriated fund balance at year-end.

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

Governing Board
Mohall Lansford Sherwood Public School District No. 1
Mohall, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mohall Lansford Sherwood Public School District No. 1 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 8, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mohall Lansford Sherwood Public School District No. 1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mohall Lansford Sherwood Public School District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mohall Lansford Sherwood Public School District No. 1's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control that we consider to be material weaknesses. We consider deficiencies 2016-001 through 2016-003 in the accompanying schedule of findings to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mohall Lansford Sherwood Public School District No. 1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Mohall Lansford Sherwood Public School District No. 1's Responses to Findings

Mohall Lansford Sherwood Public School District No. 1's responses to the findings identified in our audit are described in the accompanying schedule of findings. Mohall Lansford Sherwood Public School District No. 1's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Mahlum Goodhart pc

Mahlum Goodhart, PC
Mandan, North Dakota
August 8, 2017

MOHALL LANSFORD SHERWOOD PUBLIC SCHOOL DISTRICT NO. 1
Schedule of Findings
For the Year Ended June 30, 2016

Current Year Findings:

Finding 2016-001: Segregation of Duties

Condition – The Business Manager is responsible for the majority of accounting functions. Considering the size of the entity, it is not feasible to obtain proper separating of duties and the degree of internal control is severely limited.

Criteria – A good system of internal control contemplates an adequate segregation of duties so that no individual has control of a transaction from inception to completion.

Cause – There is a limited number of staff members available for these duties.

Effect – Inadequate segregation of duties could affect the organization's ability to timely detect misstatements in amounts that would be material to the financial statements.

Recommendation – This is not unusual in organizations of your size, but the board should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.

Management Response – We are aware of the condition and have implemented controls such as reviews and approvals.

Finding 2016-002: Preparation of the Financial Statements

Condition – The financial statements and related notes are prepared by the District's auditors.

Criteria – Complete and accurate presentation of the financial statements in conformity with the modified cash basis of accounting is required.

Cause – Ongoing changes in the reporting and disclosure requirements make it difficult to maintain knowledge of current accounting standards with limited time available to the accounting department.

Effect – The District has elected to have the auditors complete the full disclosure financial statements.

Recommendation – The preparation of financial statements by the District's auditors is not unusual in an organization of this size. Due to the accounting department having adequate accounting knowledge they should continue to review the financial statements and related disclosures.

Management Response – We are aware of the condition and have determined it is most efficient and cost effective to continue to have the auditors prepare the financial statements. We will review the draft financial statements and approve the financial statement disclosures.

Finding 2016-003: Journal Entries

Condition – Several journal entries were required to be made during the audit to present accurate financial statements. Entries made include adjustments in relation to agency funds, payroll liabilities, and GASB 68 pension items.

Criteria – The entity is required to establish internal controls and procedures which allow it to determine that the general ledger accounts are properly reflected according to the modified cash basis of accounting and properly reflect the generally accepted accounting policies.

Cause – The unrecorded transactions were unusual financial activities for the District and the GASB 68 pension adjustments require a significant amount of time and research.

Effect – The amount of journal entries made has a material effect on the financial statements.

Recommendation – Management should make sure that all financial transactions are recorded throughout the year and all general ledger accounts are properly reconciled.

Management Response – We will review the journal entries required and make efforts to eliminate these in the future. Also, we have decided to accept the degree of risk associated with the GASB 68 adjusting items.