

**PINGREE-BUCHANAN PUBLIC SCHOOL  
DISTRICT NO. 10**

PINGREE, NORTH DAKOTA

Basic Financial Statements  
as of  
June 30, 2017  
and  
Independent Auditor's Report



**DEMPSEY ACCOUNTING AND TAX SERVICES P.C.**

*Trusted Accounting Professionals*

**Beth A. Dempsey, CPA**

213 1<sup>st</sup> Avenue South  
Jamestown, ND 58401-4249

509 Main Avenue  
Edgeley, ND 58433-7119

Pingree-Buchanan Public School District No. 10  
Pingree, North Dakota  
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Pingree-Buchanan Public School District No. 10  
Pingree, North Dakota

**List of Officials  
2016-2017**

<b>Officials</b>	<b>Office</b>
Brett McIlonie	President
Jeremy Sorenson	Vice-President
Steve Homes	Member
Marvin Allen	Member
Trisha Jungels	Member
Corey Bohl	Member
Joe Uehran	Member
Denise Harrington	Superintendent
Janice Mack	Business Manager

As of June 30, 2017



# DEMPSEY ACCOUNTING AND TAX SERVICES P.C.

*Trusted Accounting Professionals*

**Beth A. Dempsey, CPA**

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## INDEPENDENT AUDITOR'S REPORT

To the President and Board  
Pingree-Buchanan Public School District No. 10  
Pingree, North Dakota

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Pingree-Buchanan Public School District No. 10, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

MEMBER OF  
American Institute of Certified Public Accountants  
North Dakota Society of Certified Public Accountants  
AICPA Division for CPA Firms

**Pingree- Buchanan Public School District No. 10**  
**INDEPENDENT AUDITOR'S REPORT (Continued)**

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, the major fund, and the aggregate remaining fund information of Pingree-Buchanan Public School District No. 10, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension liability and pension contributions on pages 6-11, 45-46 and 47-54 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.

**Change in Accounting Principle**

As discussed in Note 14 to the financial statements, in 2015 the Board adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. Our opinion is not modified with respect to this matter.

Pingree-Buchanan Public School District No. 10  
**INDEPENDENT AUDITOR'S REPORT** (Continued)

**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 Pingree-Buchanan Public School District No. 10'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 Pingree-Buchanan Public School District No. 10's internal control over financial reporting and compliance.

*Dempsey Accounting and Tax Services P.C.*

Dempsey Accounting and Tax Services P.C.  
Jamestown, North Dakota  
August 8, 2017

Pingree-Buchanan Public School District No. 10  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Unaudited)

The discussion and analysis of Pingree-Buchanan Public School District No. 10's financial performance provides an overview of the financial activities for the year ended June 30, 2017. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.

### **Financial Highlights**

Key financial highlights for the year ended June 30, 2017 are as follows:

- Net position of the District decreased by \$422,007 as a result of the current year's operations.
- Total revenues from all sources were \$2,087,730.
- Total expenditures were \$2,509,737.
- The District's net position totaled \$(120,306).
- The District's general fund had \$2,283,303 in total revenues and \$2,287,673 in total expenditures and transfers out. Overall the general fund balance decreased \$4,370 for the year ended June 30, 2017.

### **Overview of the Financial Statements**

Management's Discussion and Analysis introduces the District's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The District also includes in this report additional information to supplement the basic financial statements.

### **Government-Wide Financial Statements**

The District's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Position*. This is the District-wide statement of financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall economic health of the District would extend to the other nonfinancial factors in addition to the financial information provided in this report.



**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

The second government-wide statement is the *Statement of Activities* which reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the District's distinct activities or functions on revenue provided.

In the Statement of Net Position and the Statement of Activities, the District reports governmental activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

**Fund Financial Statements**

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The District uses funds to ensure and demonstrate compliance with finance related laws and regulations. Within the basic financial statements, fund financial statements focus on the District's most significant funds rather than the District as a whole. The District's major governmental fund is the General Fund.

**Governmental Funds**

The District's activities are reported in governmental funds; which focuses on how money flows into and out of those funds and balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

**Fiduciary Funds**

The District is the trustee, or fiduciary, for certain funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The school district's only fiduciary fund is the School Activity Fund, which is used primarily to segregate money held in trust for student organizations and similar activities. All of the District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

Pingree-Buchanan Public School District No. 10  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**Notes to the Financial Statements**

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

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

As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the District as a whole.

The District net position at fiscal year-end is \$(121,480). This is a 40.3% decrease over last year's net position of \$301,701. The following tables provide a summary of the District's net position and the changes in net position at June 30, 2017 and 2016.

**Table 1:** Summary of Net Position

	2017	2016	% change 2016 - 2017
<b>ASSETS</b>			
Current assets & other assets	\$577,020	\$536,981	+7.5%
Capital assets (net of accumulated depreciation)	\$989,000	\$1,035,100	-4.5%
Total Assets	\$1,566,020	\$1,572,081	-0.4%
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	\$625,208	\$447,287	+39.8%
<b>LIABILITIES</b>			
Note, lease payable and payroll taxes payable	\$6,475	\$6,428	+0.1%
Net pension liability	\$2,193,268	\$1,917,279	+14.4%
Long-term liabilities	\$2,860	\$6,800	-57.9%
Total Liabilities	\$2,202,603	\$1,930,507	+14.1%
<b>DEFERRED INFLOWS OF RESOURCES</b>	\$110,105	\$(212,840)	+151.7%
<b>NET POSITION</b>			
Invested in capital assets,	\$989,000	\$1,035,100	-4.5%
Restricted for:			
Building fund	\$51,068	\$10,833	+4.75%
Hot lunch fund	\$9,502	\$4,203	+2.28%
Unrestricted	\$(1,171,050)	\$(748,435)	-56.5%
Total Net Position	\$(121,480)	\$301,701	-40.3

Pingree-Buchanan Public School District No. 10  
**MANAGEMENT'S DISCUSSION AND ANALYSIS** (Continued)

**Table 2:** Summary of Change in Net Position

	2017	2016	Variance 2016 - 2017
<b>REVENUES</b>			
Program revenue			
Charges for services	\$49,517	\$54,988	\$(5,471)
Operating grants	261,289	280,428	(19,139)
General revenue			
Property taxes	354,176	937,336	(583,160)
State aid	1,401,622	1,331,174	70,448
Other	21,126	6,814	14,312
Total revenue	<u>2,087,730</u>	<u>2,610,740</u>	<u>(523,010)</u>
<b>EXPENDITURES</b>			
Instruction	1,556,040	1,469,513	(86,527)
Support services	<u>953,697</u>	<u>838,715</u>	<u>(114,982)</u>
Total expenditures	<u>2,509,737</u>	<u>2,308,228</u>	<u>(201,509)</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<u>\$(422,007)</u>	<u>\$302,512</u>	<u>\$(724,519)</u>

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

**Table 3:** Cost of Program Services

	Total Cost for Year Ended June 30, 2017	Net Cost Revenue for Year Ended June 30, 2017
Instruction	\$1,556,040	\$1,438,685
Business services	60,888	60,888
Administrative services	157,501	157,501
Operations and maintenance	291,350	291,350
Student transportation	193,371	78,977
Hot lunch program	107,771	28,714
Other support services	142,816	142,816
Total Expenditures	<u>\$2,509,737</u>	<u>\$2,198,931</u>

### Change in Accounting Principle

In 2015 the Board adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.

Pingree-Buchanan Public School District No. 10  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**Financial Analysis of the District's Governmental Funds**

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

The District derived its revenue from local, state and federal sources. Local financial resources include a general fund property tax levy, asbestos levy, technology levy, interest and miscellaneous income. State revenues were generated primarily from foundation per pupil aid, transportation aid, and special education joint agreement. Federal revenues were received from a REAP grant and Title I aid.

Local Revenue	\$758,003
State Revenue	\$1,604,889
Federal Revenue	\$58,022

The District's governmental funds had total revenues of \$2,420,914 and expenditures of \$2,409,024 for the year ended June 30, 2017. As of June 30, 2017, the unrestricted fund balance of the District's governmental fund was \$484,515.

**General Fund Budget Highlights**

During the course of fiscal year 2017, the District's original budget was not amended. Actual revenue for the year ended June 30, 2017 was \$37,074 over budget. Actual expenditures for the year ended June 30, 2017 were less than the original budget by \$2,040. The budget is used as a spending guide, which the District takes seriously.

**Capital Assets**

Pingree-Buchanan Public School District No. 10's capital asset account consists of the original school building, an elementary school building, a high school building, a superintendent's house, improvements to the buildings, including a security system, heating system and recoating gym floor, computer labs, buses, a GMC Yukon, a Ford Explorer, 2 copiers and several pieces of kitchen equipment, lunch room tables and desks, chairs, tables, and carts, tractor, snow blower and deck and replacement of boiler, technology equipment, floor scrubber and two lots of land. Additions for this school year include technology equipment, 1 vehicle, completion of a new classroom building and purchase of a building. As of June 30, 2017 the District had \$989,000 invested in capital assets. As indicated in Note 5, capital assets increased \$76,938 during the fiscal year.

Pingree-Buchanan Public School District No. 10  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**Debt Administration**

The District leased a Kyocera 4551ci copier from Central Business Systems of Jamestown in April 2015. The lease is for forty-eight months with a monthly payment of \$346.54 to Leaf Capital Funding LLC. The current portion due within one year is \$4,158.48.

**Significant Factors that can affect the Financial Position or Results of Operations in the Future**

There are many factors that contribute to the district's financial stability. Salaries are always going to be the largest expenditure in the budget and student enrollment plays a big part of creating revenue to operate the school. Technology is ever changing and the need to deliver 21<sup>st</sup> century instruction comes with a cost. The budget has grown every year from funding technology infrastructure to technology devices. The current budget is projected at surplus so the current projects will need to be overseen with caution to ensure budget constraints.

**Contacting the District's Financial Management**

This financial report is designed to provide a general overview of Pingree-Buchanan Public School District No. 10's finances and to show the accountability for the money received. Anyone who has questions about the information contained in this report or is interested in receiving additional information is encouraged to contact Pingree-Buchanan Public School District No. 10, 111 Lincoln Avenue, Pingree, North Dakota 58476; phone (701) 252-5563.

Pingree-Buchanan Public School District No. 10  
**STATEMENT OF NET POSITION**  
As of June 30, 2017

	Governmental Activities
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$502,904
Deferred outflows of resources	
Taxes receivable	27,669
Due from governmental agencies and others	46,447
Pension related deferred outflows of resources	626,382
Total current assets and deferred outflows of resources	<u>1,203,402</u>
Noncurrent assets:	
Capital assets	3,159,409
Less accumulated depreciation	<u>2,170,409</u>
Total noncurrent assets	<u>989,000</u>
Total Assets and Deferred Outflows of Resources	<u>2,192,402</u>
<b>LIABILITIES</b>	
Current liabilities	
Payroll taxes payable	2,535
Due within one year, lease payable	3,940
Long-term liabilities	
Due in more than one year, lease payable	2,860
Net pension liability	2,193,268
Total Liabilities	<u>2,202,603</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension related deferred inflows of resources	82,436
Unavailable revenue – property taxes	27,669
Total Deferred Inflows of Resources	<u>110,105</u>
<b>NET POSITION</b>	
Net investment in capital assets	989,000
Restricted for	
Building fund	51,068
Hot Lunch fund	9,502
Unrestricted	<u>(1,169,876)</u>
Total Net Position	<u>\$(120,306)</u>

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

Pingree-Buchanan Public School District No. 10  
**STATEMENT OF ACTIVITIES**  
For the Year ended June 30, 2017

FUNCTION / PROGRAMS	Expenses	Program Revenues		Net (Expense)
		Charges for	Operating Grants	Revenue & Changes
		Services	/ Contributions	in Net Position
				Governmental
				Activities
<b>Governmental Activities:</b>				
<b>Instruction:</b>				
Regular	\$1,306,550	\$4,296	\$58,022	\$(1,244,232)
Special education instruction	249,490	-	55,037	(194,453)
Total instruction	<u>1,556,040</u>	<u>4,296</u>	<u>113,059</u>	<u>(1,438,685)</u>
 <b>Support services:</b>				
Business services	60,888			(60,888)
Administrative services	157,501			(157,501)
Operations and maintenance	291,350			(291,350)
Student transportation	193,371		114,394	(78,977)
Hot lunch program	107,771	45,221	33,836	(28,714)
Other support services	81,133			(81,133)
Pension expense	61,683			(61,683)
Total support services	<u>953,697</u>	<u>45,221</u>	<u>148,230</u>	<u>(760,246)</u>
<b>Total governmental activities</b>	<u><u>\$2,509,737</u></u>	<u><u>\$49,517</u></u>	<u><u>\$261,289</u></u>	<u><u>\$(2,198,931)</u></u>
 <b>General Revenues:</b>				
<b>Taxes:</b>				
Property taxes, levied for general purposes				330,455
Property taxes, levied for building fund				23,721
State aid not restricted for specific purposes				
Foundation aid per pupil				1,382,782
Rapid enrollment				18,840
Interest income				486
Other sources				<u>20,640</u>
<b>Total general revenues</b>				<u>1,776,924</u>
 Change in net position				(422,007)
Net position, beginning				<u>301,701</u>
Net position, ending				<u><u>\$(120,306)</u></u>

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

Pingree-Buchanan Public School District No. 10

**BALANCE SHEET**  
**GOVERNMENT FUNDS**  
 As of June 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$444,500	\$58,404	\$502,904
Taxes receivable	25,503	2,166	27,669
Due from government agencies	46,447	-	46,447
Total Assets	<u>\$516,450</u>	<u>\$60,570</u>	<u>\$577,020</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES &amp; FUND BALANCES</b>			
Liabilities			
Lease payable - current portion	\$3,940	-	\$3,940
Payroll taxes payable	2,492	43	2,535
Total liabilities	<u>6,432</u>	<u>43</u>	<u>6,475</u>
Deferred Inflows of Resources			
Unavailable revenue – property taxes	25,503	2,166	27,669
Total deferred inflows of resources	<u>25,503</u>	<u>2,166</u>	<u>27,669</u>
Fund Balances			
Restricted for:			
Hot lunch fund	-	9,459	9,459
Building fund	-	48,902	48,902
Unassigned			
General Fund	484,515	-	484,515
Total fund balance	<u>484,515</u>	<u>58,361</u>	<u>542,876</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$516,450</u>	<u>\$60,570</u>	<u>\$577,020</u>

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



Pingree-Buchanan Public School District No. 10  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO GOVERNMENT-WIDE STATEMENT OF NET POSITION**  
As of June 30, 2017

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

<b>Total fund balances - governmental funds</b>	<b>\$542,876</b>
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost	\$3,159,409	
Accumulated Depreciation	<u>2,170,409</u>	
Net Capital Assets		989,000

Pension related deferred outflows of resources	626,382
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Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore, not recorded in the funds statements:

Loan payable and lease payable	(2,860)
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Net pension liability	(2,193,268)
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Pension related deferred inflows of resources	<u>(82,436)</u>
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<b>Total net position - governmental activities</b>	<b><u><u>\$(120,306)</u></u></b>
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The accompanying notes are an integral part of these financial statements.

Pingree-Buchanan Public School District No. 10  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCE GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Local sources	\$639,103	\$103,773	\$742,876
State sources	1,571,053	33,836	1,604,889
Federal sources	58,022	-	58,022
Other sources	15,125	2	15,127
Total revenues	2,283,303	137,611	2,420,914
<b>EXPENDITURES</b>			
Instruction:			
Regular	1,261,867	-	1,261,867
Special education instruction	249,489	-	249,489
Total instruction	1,511,356	-	1,511,356
Support Services:			
Business services	60,888	-	60,888
Administration services	161,226	-	161,226
Operations and maintenance	243,311	4,593	247,904
Hot lunch program	-	107,771	107,771
Student transportation	162,517	-	162,517
Other support services	76,484	-	76,484
Total support services	704,426	112,364	816,790
Debt Service			
Lease payable	3,940	-	3,940
Capital outlays	39,951	36,987	76,938
Total expenditures	2,259,673	149,351	2,409,024
Excess (deficiency) of revenues over expenditures	23,630	(11,740)	11,890
Other Financing Sources (Uses)			
Transfers in	-	28,000	28,000
Transfers out	28,000	-	(28,000)
	28,000	28,000	-
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(4,370)	(16,260)	11,890
Fund balance beginning of year	488,885	42,101	530,986
Fund balance end of year	<u>\$484,515</u>	<u>\$58,361</u>	<u>\$542,876</u>

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

Pingree-Buchanan Public School District No. 10  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE WITH  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**

As of June 30, 2017

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

Net change in fund balance – total government funds		\$11,890
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	78,938	
Depreciation expense	<u>(120,343)</u>	(43,405)
Excess of Capital outlay over depreciation expense		
Revenue from property taxes is deferred in the governmental fund financial statements until they are considered available to finance current expenditures, but such revenues are recognized when assessed in the government-wide financial statements. These consist of net change in deferred property taxes.		
		(332,749)
Repayment of capital lease payments are expenditures in the governmental funds, but not in the statement of activities (where it reduces long-term debt).		
		3,940
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Pension expense		<u>(61,683)</u>
<b>Net change in net position of governmental activities</b>		<u><u>\$ (422,007)</u></u>

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

Pingree-Buchanan Public School District No. 10  
**STATEMENT OF ASSETS AND LIABILITIES**  
**FIDUCIARY FUNDS**  
As of June 30, 2017

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$42,397</u>
Total Assets	<u><u>\$42,397</u></u>
 <b>LIABILITIES</b>	
Due to student groups	<u>\$42,397</u>
Total Liabilities	<u><u>\$42,397</u></u>

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

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2017

**Note 1 Summary of Significant Accounting Policies**

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for established governmental accounting and financial reporting principles in the United States. The accounting policies of Pingree-Buchanan Public School District No. 10 conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. Pingree-Buchanan Public School District No. 10 operates the public schools for the towns of Pingree and Buchanan in North Dakota and surrounding area. The following is a summary of the significant accounting policies used by Pingree-Buchanan Public School District No. 10.

**Reporting Entity**

The Pingree-Buchanan Public School District No. 10 is the basic level of government which has financial accountability and control over all activities related to the public school education in District No. 10. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by GASB pronouncements, since Board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined in Governmental Accounting Standards Board Statement 14 which are included in the District's reporting entity.

**Basics of Presentation**

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

**Government-wide Financial Statements** - The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District's government-wide activities are considered governmental activities.

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

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 revenue includes (1) charges to recipients for goods or services provided by a given program and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)

**Note 1 Summary of Significant Accounting Policies** (Continued)

program revenues are reported instead as general revenue.

**Fund Financial Statements** - In order to aid financial management and to demonstrate legal compliance, the District segregates transactions related to certain functions or activities in separate funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The focus of the governmental fund financial statements is on major funds. Each major fund is presented as a separate column in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

**Fund Accounting**

Governmental funds are utilized to account for most of Pingree-Buchanan Public School District No. 10's government functions. The reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which the obligation will be paid. Fund balance represents the difference between the governmental fund assets and liabilities. The District's major governmental funds are as follows:

**General Fund** - This fund is the general operating fund of Pingree-Buchanan Public School District No. 10. It accounts for all financial resources except those required to be accounted for in another fund.

Additionally, the District reports the following fund types:

**Special Revenue Fund** - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. The District's Special Revenue Fund consists of the School Lunch Fund which is used to account for the operations of the school food service. Any operating deficit generated by this activity is the responsibility of the General Fund.

**Capital Projects Fund** - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The District's Building Fund accounts for special taxes levied for construction and major repairs to the district plant and payment of interest, principal, and other expenditures on the long-term debt.

**Fiduciary Fund** - The reporting focus of fiduciary funds is on net assets and changes in net assets.

**Agency Fund** - The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The District's agency fund consists of the Student Activity Fund, which account for the financial transactions related to student activity programs.

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 1 Summary of Significant Accounting Policies (Continued)**

**Measurement Focus and Basis of Accounting**

**Government-Wide Financial Statements** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met. All assets and liabilities associated with the operation of the District are included in the statement of net position.

**Fund Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Pingree-Buchanan Public School District No. 10 considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Only current assets, current liabilities and fund balances are generally included on the balance sheet. General capital asset acquisitions are reported as expenditures in governmental funds.

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 differences, Pingree-Buchanan Public School District No. 10's financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**Other Accounting Policies**

**Revenues-Exchange and Non-Exchange Transactions** - Exchange transactions are transactions in which each party gives and receives essential equal value. Under the accrual basis of accounting, revenue for exchange transactions is recorded when the exchange takes place. Under the modified accrual basis of accounting, revenue for exchange transactions is recorded when the resources are measurable and available.

Non-exchange transactions include transactions which the District receives value without directly providing value in return. Non-exchange transactions include property taxes, grants, entitlements, and donations.

Under the accrual basis of accounting, property taxes are recorded as revenue in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recorded in the fiscal year in which all eligibility requirements have been satisfied. Under the modified accrual basis of accounting, revenue from non-exchange transactions must also be available

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 1 Summary of Significant Accounting Policies (Continued)**

before it is recorded in the financial records of the District. Major revenue sources susceptible to accrual include: property taxes, intergovernmental revenues and investment income.

**Expenses and Expenditures** - Governmental funds accounting measurement focus is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recorded in the fiscal year in which the related fund liability is incurred. Under the accrual basis of accounting, expenses are recorded when incurred.

**Budgets and Budgetary Accounting** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and all special revenue funds.

Pingree-Buchanan Public School District No. 10's Board follows the procedures established by North Dakota law for the budgetary process. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year. Formal budgetary integration is employed as a management control device during the year for the general fund. The board must adopt the final budget on or before August 15. The final budget must be filed with the county auditor by August 25.

The budget may be amended during the year by the Board for any revenues and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the proceedings of the board. All appropriations lapse at the close of the fiscal year.

To provide a meaningful comparison of the District's actual results compared to the budgeted results, the Statements of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual are prepared on the District's budgetary basis. Under the district's budgetary basis of accounting, revenues are budgeted on the modified accrual basis of accounting.

Expenditures are also budgeted on the modified accrual basis except teachers' salaries and benefits. The District allows teachers to take their compensation in nine or twelve payments. The budget is prepared estimating the entire contract cost regardless when actual payment is made.

**Cash and Cash Equivalents** - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.



Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)

**Note 1 Summary of Significant Accounting Policies** (Continued)

**Investments** - Investments are recorded at fair value. North Dakota state statute authorizes Pingree-Buchanan Public School District No. 10 to invest their surplus funds in: a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentality's or organizations created by an act of Congress, b) Securities sold under agreements to repurchase written by financial institution in which underlying securities for the agreement to repurchase are of the type listed above, c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation, and d) obligations of the state.

**Receivables** - Taxes receivable consist of current and delinquent uncollected taxes as of June 30, 2017. Due from governmental agencies consists of federal and state aid that has not been received by the end of the fiscal year. No allowance has been established for uncollectible amounts.

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

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 is due by October 15. A 5% discount on the 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 5% discount on the property taxes. Property taxes are limited by state laws. All school district tax levies are in compliance with state laws.

**Capital Assets** - Capital assets, which include land, buildings, and equipment, are reported in the applicable governmental column in the government-wide financial statements but are not reported as assets in the fund financial statements. Capital assets are defined by Pingree-Buchanan Public School District No. 10 as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The assets are updated for additions and retirements during the District's fiscal year. Donated capital assets are recorded at estimated fair market value at the date received. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. Pingree-Buchanan Public School District No. 10 does not have infrastructure-type assets.

The District's land is capitalized but is not depreciated. Capital assets are depreciated using the straight-line method over the following useful lives:

Building and building improvements	40-50 years
Equipment and vehicles	7-10 years
Office equipment	5-7 years

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)

**Note 1 Summary of Significant Accounting Policies** (Continued)

**Deferred outflows and inflows of resources** – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an expense or expenditure until then. The District had four items that meet this criterion – a pension related deferral, contributions made to the pension plan in the current fiscal year, due from governmental agencies and taxes receivable. The statement of financial position also reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to the future period and so will not be recognized as revenue until then. The District has two item that meets this criterion – a pension related deferral and unavailable revenue – property taxes.

**Compensated Absences** - Pingree-Buchanan Public School District No. 10 has adopted various policies regarding the accumulation of sick leave based on staff categories and full and part-time employment status. Upon termination, no compensation is paid to employees for accumulated sick leave. Earned vacation time is generally required to be used in the year earned. Professional staff are paid \$80 per day for any unused personal leave at year end, up to a maximum accumulated of three days. Reasonable estimation of the resulting liability cannot be met, and there is no accrual made for compensated absences. The amount to be paid from current reserves is not significant and the resulting liability is deemed to be immaterial.

**Accrued Liabilities and Long-Term Obligations** - All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Pingree-Buchanan Public School District No. 10's governmental fund financials report only those obligations that will be paid from current financial resources.

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

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

- ***Nonspendable*** – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.
- ***Restricted*** – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 1 Summary of Significant Accounting Policies (Continued)**

- ***Committed*** – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors through the adoption of a resolution. The Board also may modify or rescind the commitment.
- ***Assigned*** – Fund balances are reported as assigned when amounts are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the Board has authorized the District's Superintendent to assign fund balances.
- ***Unassigned*** - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The District reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

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

- Committed
- Assigned
- Unassigned

**Net Position** - Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of the remaining undepreciated cost of the asset less the outstanding debt associated with the purchase or construction of the related asset. Net position is reported as restricted when external creditors, grantors, or other governmental organizations impose specific restrictions on Pingree-Buchanan Public School District No. 10. External restrictions may be imposed through state or local laws, and grant or contract provisions.

**Fund Balance Reservations and Designations** - Reserved fund balances represent fund equity, which are legally segregated for a specific future use or equity that is not an available expendable resource. Unreserved fund balance represents fund equity that is available for appropriation in future periods.

Fund balance designations may be established to indicate tentative planned expenditures of financial resources. The designations reflect Pingree-Buchanan Public School No. 10's intentions and may be changed by the board as needed. The designations are reported as part of unrestricted fund balance.

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 1 Summary of Significant Accounting Policies (Continued)**

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

**Comparative Data** - Comparative data is not included in Pingree-Buchanan Public School District No. 10's financial statements.

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 2 Cash & Cash Equivalents**

The following is a summary of the cash balances at June 30, 2017:

	Balance per Bank Records	In Transit Items	Balance per District Records
Checking Accounts			
Unison Bank, Jamestown, ND			
General Fund	\$464,998	\$(116,003)	\$348,995
Incidental Cash	2,065	(75)	2,140
Building Fund	48,902	-	48,902
Hot Lunch Fund	13,797	(4,295)	9,502
Activity Fund	40,831	1,566	42,397
Total checking accounts	<u>\$570,593</u>	<u>\$(118,657)</u>	<u>\$451,936</u>
Certificates of Deposit & Savings Accounts	Rate		Amount
Unison Bank, Jamestown, ND			
Savings	0.07%		<u>93,305</u>
Total certificates of deposit and savings accounts			<u>\$93,305</u>
Petty Cash			<u>60</u>
Total cash			<u><u>\$545,301</u></u>
Cash consists of:			
Governmental funds			\$502,904
Fiduciary fund			<u>42,397</u>
Total			<u><u>\$545,301</u></u>

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. Deposits, other than with the Bank of North Dakota, must be fully insured or secured with pledges of securities equal to 110% of the uninsured balance. The District's board approves and designates a list of depository institutions.

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Pledges of Securities by Depository** - Following is a schedule of the amount of money on deposit in the District's bank at June 30, 2017, and the amount of securities the bank has pledged as collateral along with insurance coverage for the deposits:

	Amount on Deposit June 30, 2017	Amount of Pledged Securities and F.D.I.C. Insurance
Unison Bank	\$666,232	\$1,204,007

All deposits are Category 1 with deposits insured or registered in the name of the District, or securities held by the District or its agent in its name. The pledge of securities and insurance coverage is Not less than the deposits for Unison Bank and Bank Forward.

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligation. State statutes authorize the District to invest in (1) Bonds, treasury bill and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress; (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above; (3) Certificates of deposit fully insured by the federal deposit insurance corporation or by the state; (4) Obligations of the state. All investments are stated at cost.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Certificates of deposit may not be purchased with maturities greater than 365 days from the date of purchase.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer.

**Note 3 Legal Compliance - Budgets**

The school board has not amended the school district budget. General Fund expenditures and transfers were under the budget by \$2,040, however, revenues received were \$37,074 more than budgeted.

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)

**Note 4 Unavailable Revenue and Due From Governmental Agencies and Others**

Unavailable Revenue – Property Taxes:

General Fund	\$25,503
Building Fund	2,166
Total Unavailable Revenue – Property Taxes	<u>\$27,669</u>

Due from Governmental Agencies and Others:

General Fund	
Title I	\$30,336
Title II	13,585
Career & Technical Education	1,526
Early Childhood Education	1,000
Total Due from Governmental Agencies and Others	<u>\$46,447</u>

**Note 5 Capital Assets**

Capital Asset activity of Pingree-Buchanan Public District No. 10's governmental activities was as follows:

	Balance Beginning of Year	Additions	Disposal	Balance End of Year
Governmental Activities				
Land	\$6,000	\$	\$	\$6,000
Building and improvements	2,215,448	36,987		2,252,435
Equipment and vehicles	861,023	39,951		900,974
Less Accumulated Depreciation				
Building and improvements	1,426,776	43,445		1,470,221
Equipment and vehicles	623,290	76,898		700,188
Net Capital Assets for				
Governmental Activities	<u>\$1,032,405</u>	<u>\$(43,405)</u>	<u>\$</u>	<u>\$989,000</u>
Total additions to capital assets				<u>\$76,938</u>
Current year capital outlays as reported on the statement of revenues, expenditures, and changes in fund balance				<u>\$76,938</u>

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 5 Capital Assets (Continued)**

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

Instruction:

Regular	\$40,744
Operations and maintenance	43,445
Administration services	215
Student transportation	30,854
Other support	5,085
Total	<u>\$120,343</u>

**Note 6 Long-term Debt Obligations**

**Changes in Long-Term Debt Obligations** - During the year ended June 30, 2017, the following changes occurred in liabilities reported under long term liabilities – Governmental Activities:

	<u>Note Payable</u>
Balance July 1, 2016	\$6,800
Additions	-
Reductions	<u>3,940</u>
Balance June 30, 2017	<u>\$2,860</u>
(1) Due within one year	\$3,940

**Leases Payable**

A four year capital lease was signed by the School District in April 2015 for a Kyocera 4551ci copier for the high school. The older copier was moved to the elementary school and the leases were merged. Payments are \$328.35 per month and the final payment is due April, 2019.



Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)

**Note 7 Long-term Debt Obligations** (Continued)

The annual requirements to retire the above obligations are:

Fiscal Year Ending June 30	Principal	Interest	Total
2018	\$3,940	\$ -	\$3,940
2019	2,860	-	2,860
2020	-	-	-
2021	-	-	-
Total	<u>\$6,800</u>	<u>\$ -</u>	<u>\$6,800</u>

**Note 8 Interfund Transfers**

Government Funds:

Transfers out:	General fund	\$28,000
Transfers in:	Hot lunch fund	\$28,000

Transfers in/out consist of:

\$28,000 to Hot lunch fund from General fund to cover indirect cost for the current year that relate to school lunch activities. The activities include payroll and related expense. There is nothing due to or due from any of the funds.

**Note 9 North Dakota Teachers' Fund for Retirement**

**Summary of Significant Accounting Policies**

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

**General Information about the Pension Plan**

***North Dakota Teachers' Fund for Retirement***

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

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

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 9 North Dakota Teachers' Fund for Retirement (Continued)**

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 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.

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 9 North Dakota Teachers' Fund for Retirement (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 the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and uses the member's actual years of credited service. There is no actuarial reduction for reason of disability retirement.

***Member and Employer Contributions***

Member and employer contributions paid to TFFR are set by NDCC Section 15-39.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 11.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 9 North Dakota Teachers' Fund for Retirement (Continued)**

employing a teacher must also pay into TFFR a sum equal to 12.75% of the teacher's salary. Member and employer contributions will be reduced to 7.75% each when the fund reaches 100% funded ratio on an actuarial basis.

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

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

At 06/30/2017, the Employer reported a liability of \$1,859,154 for its proportionate share of the net pension liability. The net pension liability was measured as of 07/01/2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At 07/01/2016, the Employer's proportion was 0.12689965 percent which was an increase of 0.00156165 from its proportion measured as of 06/30/2015.

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 9 North Dakota Teachers' Fund for Retirement (Continued)**

For the year ended 06/30/2017, the Employer recognized pension expense of \$166,679. At 06/30/2017, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 8,781	\$ 8,803
Changes of assumptions	155,293	-
Net difference between projected and actual earnings on pension plan investments	154,546	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	15,623	46,172
Employer contributions subsequent to the measurement date	<u>*108,610</u>	<u>-</u>
Total	<u>\$442,853</u>	<u>\$54,975</u>

\*\$108,610 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended 06/30/2018.

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:**

2018	\$ 50,722
2019	50,722
2020	88,486
2021	64,842
2022	23,360
Thereafter	1,136

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 9 North Dakota Teachers' Fund for Retirement (Continued)**

**Actuarial assumptions.** The total pension liability in the July 1, 2016 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 RP-2014 Healthy Annuitant Mortality Table set back one year, multiplied by 50% for ages under 75 and grading up to 100% by age 80, projected generationally using Scale MP-2014. For disabled retirees, mortality rates were based on the RP-2014 Disabled Mortality Table set forward four years.

The actuarial assumptions used were based on the results of an actuarial experience study dated April 30, 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for TFFR.

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

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

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:

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)

**Note 9 North Dakota Teachers' Fund for Retirement** (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	58%	7.30%
Global Fixed Income	23%	0.90%
Global Real Assets	18%	5.30%
Cash Equivalents	1%	0.00%

**Discount rate.** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. 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, 2016, 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, 2016. 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, 2016.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Employer's proportionate share of the net pension liability	\$2,411,463	\$1,859,154	\$1,399,133

**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](http://www.nd.gov/rio/sib/publications/cafr/default/htm).

**Note 10 North Dakota Public Employees Retirement System**

**Summary of Significant Accounting Policies**

*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 North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by 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.

**General Information about the Pension Plan**

***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.

***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 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. For members hired on or after January 1, 2016, the Rule of 85 will be replaced with the Rule of 90 with minimum age of 60.



Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 10 North Dakota Public Employees Retirement System (Continued)**

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 covered salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 10 North Dakota Public Employees Retirement System (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 06/30/2016, the Employer reported a liability of \$235,482 for its proportionate share of the net pension liability. The net pension liability was measured as of 06/30/2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At 06/30/2016, the Employer's proportion was 0.024162 percent which was a decrease of 0.002222 from its proportion measured as of 06/30/2015.

For the year ended 06/30/2017, the Employer recognized pension expense of \$25,987. At 06/30/2017, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 3,537	\$ 2,180
Changes of assumptions	21,708	11,699
Net difference between projected and actual earnings on pension plan investments	32,854	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	23,293
Employer contributions subsequent to the measurement date	<u>*22,373</u>	<u>-</u>
Total	<u>\$ 80,472</u>	<u>\$37,172</u>

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 10 North Dakota Public Employees Retirement System (Continued)**

\*\$22,373 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended 06/30/2018.

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:**

2018	\$ 5,267
2019	5,267
2020	5,267
2021	5,212
2022	2,279
Thereafter	-

**Actuarial assumptions.** The total pension liability in the July 1, 2016 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 for males (no set back 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, 2016, funding actuarial valuation for NDPERS.

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)

**Note 10 North Dakota Public Employees Retirement System** (Continued)

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.

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, 2016. 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, 2016, 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, 2016. 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, 2016.

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)

**Note 10 North Dakota Public Employees Retirement System** (Continued)

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

	<b>1% Decrease (7%)</b>	<b>Current Discount Rate (8%)</b>	<b>1% Increase (9%)</b>
Employer's proportionate share of the net pension liability	\$334,027	\$235,482	\$152,453

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

**Note 11 Federal and State Grants**

In the normal course of operations, Pingree-Buchanan Public School District No. 10 receives financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with items and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. The District's management believes it has complied with all applicable grant provisions. In the opinion of management, any possible disallowed claim would not have a material effect on the overall financial position of the District as of June 30, 2017.

**Note 12 Non Monetary Transactions**

Pingree-Buchanan Public School District No. 10 receives food commodities from the federal government to subsidize its hot lunch program. The commodity distribution value received for the year ended June 30, 2017 was \$6,978.88.

**Note 13 Risk Management**

Pingree-Buchanan Public School District No. 10 is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The District pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence.

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)

**Note 13 Risk Management** (Continued)

Pingree-Buchanan Public School District No. 10 also participates in the North Dakota Fire and Tornado 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 one 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 \$730,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

Pingree-Buchanan Public School District No. 10 participates in the North Dakota Worker's Compensation Bureau and purchases commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

**Note 14 Change in Accounting Principles/Restatement**

The District implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, in the fiscal year ending June 30, 2015. The implementation of the statement required the District to record beginning net pension liability and the effects on net position of contributions made by the Center during the measurement period (fiscal year 2014). As a result, net position for the governmental activities decreased by \$1,624,855.

Pingree-Buchanan Public School District No. 10  
**BUDGETARY COMPARISON - GENERAL FUND**  
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$650,455	\$650,455	\$639,103	(\$11,352)
Other local sources	2,900	2,900	15,125	12,225
State sources	1,530,179	1,530,179	1,571,053	40,874
Federal sources	62,695	62,695	58,022	(4,673)
Total revenues	2,246,229	2,246,229	2,283,303	37,074
<b>EXPENDITURES</b>				
Instruction:				
Regular instruction	1,275,309	1,275,309	1,298,571	(23,262)
Special education instruction	283,795	283,795	249,489	34,306
Support Services:				
Business services	63,481	63,481	60,888	2,593
Administration services	153,486	153,486	161,226	(7,740)
Operations and maintenance	248,996	248,996	243,311	5,685
Student transportation	171,603	171,603	169,704	1,899
Other supportive services	75,043	75,043	76,484	(1,441)
Total expenditures	2,271,713	2,271,713	2,259,673	12,040
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	18,000	18,000	28,000	(10,000)
Total other financing sources (uses)	18,000	18,000	28,000	(10,000)
Excess (deficiency) of revenues over expenditures	(43,484)	(43,484)	(4,370)	39,114
Fund balance beginning of year	488,885	488,885	488,885	-
Fund balance (deficit) end of year	<u>\$445,401</u>	<u>\$445,401</u>	<u>\$484,515</u>	<u>\$39,114</u>

See accompanying notes to the basic financial statements.

Pingree-Buchanan Public School District No. 10  
**NOTES TO THE BUDGETARY COMPARISON SCHEDULE**  
June 30, 2017

**Note 1 Summary of Significant Budget Policies**

Based upon available financial information and requests by the governing board, the business manager prepares the school district budget. The budget is prepared for the general fund and Special Revenue Fund on the modified accrual basis of accounting. The budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at fiscal year-end.

School district taxes must be levied by the governing board on or before August 15. The taxes levied must be certified to the county auditor by August 25. The governing board may amend its tax levy and budget, but the certification must be filed with the county auditor by October 10. The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.

**Note 2 Legal Compliance - Budgets**

The governing board did not have any amendments to the school district's budget for the year ending June 30, 2017.



Pingree-Buchanan Public School District No. 10  
**Schedule of Employer's Share of Net Pension Liability**  
**ND Teachers' Fund for Retirement**  
**Last 10 Fiscal Years\***

	2015
1. Employer's proportion of the net pension liability (asset)	0.130916%
2. Employer's proportionate share of the net pension liability (asset)	\$1,371,768
3. Employer's covered-employee payroll	\$759,383
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	180.64%
5. Plan fiduciary net position as a percentage of the total pension liability	66.6%

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

Pingree-Buchanan Public School District No. 10  
**Schedule of Employer Contributions**  
**ND Teachers' Fund for Retirement**  
**Last 10 Fiscal Years\***

	2015
Statutorily required contribution	\$81,633
Contributions in relation to the statutorily required contribution	(\$81,633)
Contribution deficiency (excess)	\$0.00
Employer's covered-employee payroll	\$759,383
Contributions as a percentage of covered-employee payroll	10.75%

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

The accompanying required supplementary information notes are an integral part of this schedule.

Pingree-Buchanan Public School District No. 10  
**Schedule of Employer's Share of Net Pension Liability**  
**ND Teachers' Fund for Retirement**  
**Last 10 Fiscal Years\***

	2016
1. Employer's proportion of the net pension liability (asset)	0.125338%
2. Employer's proportionate share of the net pension liability (asset)	\$1,639,240
3. Employer's covered-employee payroll	\$770,963
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	212.62%
5. Plan fiduciary net position as a percentage of the total pension liability	62.1%

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

Pingree-Buchanan Public School District No. 10  
**Schedule of Employer Contributions**  
**ND Teachers' Fund for Retirement**  
**Last 10 Fiscal Years\***

	2016
Statutorily required contribution	\$98,293
Contributions in relation to the statutorily required contribution	(\$98,293)
Contribution deficiency (excess)	\$0.00
Employer's covered-employee payroll	\$770,963
Contributions as a percentage of covered-employee payroll	12.75%

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

The accompanying required supplementary information notes are an integral part of this schedule.

Pingree-Buchanan Public School District No. 10  
**Schedule of Employer's Share of Net Pension Liability**  
**ND Teachers' Fund for Retirement**  
**Last 10 Fiscal Years\***

	2017
1. Employer's proportion of the net pension liability (asset)	0.12689965%
2. Employer's proportionate share of the net pension liability (asset)	\$1,859,154
3. Employer's covered-employee payroll	\$824,499
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	225.49%
5. Plan fiduciary net position as a percentage of the total pension liability	59.2%

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

Pingree-Buchanan Public School District No. 10  
**Schedule of Employer Contributions**  
**ND Teachers' Fund for Retirement**  
**Last 10 Fiscal Years\***

	2017
Statutorily required contribution	\$105,124
Contributions in relation to the statutorily required contribution	(\$105,124)
Contribution deficiency (excess)	\$0.00
Employer's covered-employee payroll	\$824,499
Contributions as a percentage of covered-employee payroll	12.75%

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

The accompanying required supplementary information notes are an integral part of this schedule.

Pingree-Buchanan Public School District No. 10  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
June 30, 2017

**Changes of assumptions.** Amounts reported in 2016 and later reflect the following actuarial assumption changes 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.

Pingree-Buchanan Public School District No. 10  
**Schedule of Employer's Share of Net Pension Liability**  
 ND Public Employees Retirement System  
**Last 10 Fiscal Years\***

	2015
Employer's proportion of the net pension liability (asset)	0.028342%
Employer's proportionate share of the net pension liability (asset)	\$179,893
Employer's covered-employee payroll	\$238,746
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	75.35%
Plan fiduciary net position as a percentage of the total pension liability	77.70%

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

Pingree-Buchanan Public School District No. 10  
**Schedule of Employer Contributions**  
 ND Public Employees Retirement System  
**Last 10 Fiscal Years\***

	2015
Statutorily required contribution	\$16,999
Contributions in relation to the statutorily required contribution	(\$16,999)
Contribution deficiency (excess)	\$0.00
Employer's covered-employee payroll	\$238,746
Contributions as a percentage of covered-employee payroll	7.12%

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

The accompanying required supplementary information notes are an integral part of this schedule.

Pingree-Buchanan Public School District No. 10  
**Schedule of Employer's Share of Net Pension Liability**  
 ND Public Employees Retirement System  
**Last 10 Fiscal Years\***

	2016
Employer's proportion of the net pension liability (asset)	0.026384%
Employer's proportionate share of the net pension liability (asset)	\$179,407
Employer's covered-employee payroll	\$235,051
Employer's 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	77.70%

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

Pingree-Buchanan Public School District No. 10  
**Schedule of Employer Contributions**  
 ND Public Employees Retirement System  
**Last 10 Fiscal Years\***

	2016
Statutorily required contribution	\$17,854
Contributions in relation to the statutorily required contribution	(\$16,735)
Contribution deficiency (excess)	\$1,119
Employer's covered-employee payroll	\$235,051
Contributions as a percentage of covered-employee payroll	7.60%

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

The accompanying required supplementary information notes are an integral part of this schedule.

Pingree-Buchanan Public School District No. 10  
**Schedule of Employer's Share of Net Pension Liability**  
 ND Public Employees Retirement System  
**Last 10 Fiscal Years\***

	2017
Employer's proportion of the net pension liability (asset)	0.024162%
Employer's proportionate share of the net pension liability (asset)	\$235,482
Employer's covered-employee payroll	\$243,497
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	96.71%
Plan fiduciary net position as a percentage of the total pension liability	70.46%

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

Pingree-Buchanan Public School District No. 10  
**Schedule of Employer Contributions**  
 ND Public Employees Retirement System  
**Last 10 Fiscal Years\***

	2017
Statutorily required contribution	\$17,629
Contributions in relation to the statutorily required contribution	(\$18,371)
Contribution deficiency (excess)	(\$742)
Employer's covered-employee payroll	\$243,497
Contributions as a percentage of covered-employee payroll	7.54%

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

The accompanying required supplementary information notes are an integral part of this schedule.

Pingree-Buchanan Public School District No. 10  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
June 30, 2017

**Changes of Assumptions**

Amounts reported in 2017 reflect actuarial assumption changes effective July 1, 2016 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.





# DEMPSEY ACCOUNTING AND TAX SERVICES P.C.

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

To the Chairman and Board  
Pingree- Buchanan Public School District No. 10  
Pingree, 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 government activities, the major fund, and the aggregate remaining fund information of Pingree-Buchanan Public School District No. 10, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Pingree-Buchanan Public School District No. 10'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 Pingree-Buchanan Public School District No. 10'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 Pingree-Buchanan Public School District No. 10's internal control. Accordingly, we do not express an opinion on the effectiveness of Pingree-Buchanan Public School District No. 10's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*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

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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. We consider the following deficiency to be a material weakness.

#### **Preparing Financial Statements – Design Deficiency:**

**Condition:** Management has not identified risks to the preparation of reliable financial statements.

**Criteria:** Risks should be identified that impact the preparation of reliable financial statements. The COSO framework for effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the financial statements and the management of those risks.

**Cause:** Pingree-Buchanan-Bowdon Public School District No. 10 does not analyze the risks of material misstatements and has not determined how identified risks should be managed.

**Effect:** Lack of identification of possible risks provides an opportunity for fraud to occur and could increase errors and misstatements. This increases the risk of misstatement of the District's financial condition.

**Recommendation:** Design of effective controls and management of those controls over the preparation of the financial statements will aid in prevention and detection of material misstatements, including footnote disclosure.

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. We consider the following to be a significant deficiency.

#### **Lack of Segregation – Design Deficiency:**

**Condition:** One employee collects monies, deposits monies, issues checks, sends checks to vendors, records receipts and disbursements in journals, maintains the general ledger, and prepares financial statements.

**Criteria:** There should be sufficient accounting personnel so duties of employees are segregated. COSO states that controls and the monitoring of those controls are important components of risk management.

**Cause:** Pingree-Buchanan Public School District No. 10 has one person responsible for most accounting functions making complete segregation of duties difficult.

**Effect:** A lack of internal controls provides an opportunity for fraud to occur and for increased errors and misstatements. This increases the risk of misstatement of the District's financial condition.

**Recommendation:** Segregation of duties would provide better control over the assets of the Center. These functions should be monitored by the Board.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Pingree-Buchanan Public School District No. 10's financial statements are free from material misstatement, we performed tests of 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*.

### **Views of Responsible Officials**

Pingree-Buchanan Public School District No. 10's Board realizes it is extremely hard to have the ultimate of internal controls and segregation of duties with a staff of two people and believes that the controls presently in place do a good job of mitigating the risk that the financial statements are misstated. They feel it is not economically feasible to have enough employees hired to provide for the necessary segregation of duties. They believe providing policies and procedures for the accounting function and strong board oversight is adequate.

Pingree-Buchanan Public School District No. 10's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

*Dempsey Accounting & Tax Services P.C.*  
Dempsey Accounting and Tax Services P.C.  
Jamestown, North Dakota  
August 8, 2017



# DEMPSEY ACCOUNTING AND TAX SERVICES P.C.

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August 8, 2017

To the President and Board of Directors  
Pingree-Buchanan Public School District No. 10  
Pingree, North Dakota

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Pingree-Buchanan Public School District No. 10 for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and if applicable, Government Auditing Standards), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 29, 2016. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Pingree-Buchanan Public School District No. 10 are described in Note 1 to the financial statements. The District implemented GASB Statement 68, *Accounting and Financial Reporting for Pension* in the fiscal year ending June 30, 2015, however no other new accounting policies were adopted and the application of existing policies was not changed during the 2016-2017 year. We noted no transactions entered into by the governmental unit during the year for 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 prepared 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 disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

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### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatement*

Professional standards require us 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. There were no such misstatements for management to correct.

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representation from management that is included in the management representation letter dated August 8, 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 governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We 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 our professional relationship and our responses were not a condition to our retention.

### *Other information in Documents Containing Audited Financial Statements*

With respect to the supplementary information accompanying the financial statements, we 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 our audit of the financial statements. We compared and reconciled the supplementary information to the

underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the President and Board of Pingree-Buchanan Public School District No. 10 and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Dempsey Accounting & Tax Services P.C.*  
Dempsey Accounting and Tax Services P.C.