

***RICHARDTON-TAYLOR
PUBLIC SCHOOL DISTRICT NO. 34***

AUDIT REPORT

JUNE 30, 2016

Richardton-Taylor Public School District No. 34
RICHARDTON, NORTH DAKOTA

TABLE OF CONTENTS
For The Year Ended June 30, 2016

	PAGE(S)
INDEPENDENT AUDITOR’S REPORT	1 – 3
MANAGEMENT’S DISCUSSION AND ANALYSIS	4 – 10
BASIC FINANCIAL STATEMENTS:	
<i>Government-wide Financial Statements:</i>	
Statement of Net Position	11
Statement of Activities	12
<i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Fiduciary Net Position	16
<i>Notes to Basic Financial Statements</i>	17 – 30
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Employer’s Share of Net Pension Liability	31
Schedule of Employer Contributions	31
Budgetary Comparison Schedule – General Fund	32
Notes to Required Supplementary Information	33
SUPPLEMENTARY REPORTS:	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34 – 35
Schedule of Findings	36 – 37

INDEPENDENT AUDITOR'S REPORT

Governing Board
Richardton-Taylor Public School District No. 34
Richardton, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Richardton-Taylor Public School District No. 34, Richardton, North Dakota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Richardton-Taylor Public School District No. 34, Richardton, North Dakota as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Notes 1 and 3 to the financial statements, Richardton-Taylor Public School District No. 34 adopted the provisions of Governmental Accounting Standards Board Statement No. 72, *Fair Measurement and Application*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10, the District's share of net pension liability and employer contributions on page 31, and the budgetary comparison information on pages 32 through 33 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.

INDEPENDENT AUDITOR'S REPORT

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2017, on our consideration of Richardton-Taylor Public School District No. 34'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 Richardton-Taylor Public School District No. 34's internal control over financial reporting and compliance.



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

Richardton-Taylor Public School District No. 34
Management's Discussion and Analysis
June 30, 2016

This section of the Richardton-Taylor Public School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2016. The intent of the MD&A is to look at the District's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

FINANCIAL HIGHLIGHTS

- Net position increased \$575,051 as a result of current year's operations.
- Governmental net position totaled (\$391,981) at June 30, 2016.
- Total revenues were \$5,071,263.
- Total expenses were \$4,496,212.

The Richardton-Taylor Public School District believes that it is important to equip students with the knowledge and skills necessary to become active, informed, and productive members of a diverse global society. The District has seen an increased enrollment in some classes, others have leveled off or dropped. This continues to create challenges within grade levels and staff needs. With the larger number of classrooms that are needed and the continued offering of preschool, the District collaborates with St. Mary's Catholic Church for space. We continue to provide differentiated instruction in many classes to address student learning needs. We also continue to see an increasing number of students open enrolling from neighboring districts.

The district continues to add staff members as needed and provide meaningful professional development opportunities in order to fulfill the District's education goals in the areas of reading comprehension, writing competence, and communication skills for all students at all grade levels.

While the district continues to maintain the current buildings, the ages and overall structural conditions have come to a point where major improvements are needed to ensure a safe learning and teaching environment for students and staff. In June 2016, voters decided they would support a new building on the campus in Richardton. The building process is scheduled to begin the spring of 2017. The building will house all junior and senior high school students and some of the elementary grades. The remaining elementary grades and preschool will be at TRE, which will eliminate classes at St. Mary's.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial statements.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in *more detail* than the government-wide financial statements.
 - The *governmental funds* statements tell how *general government* services were financed in the short term as well as what remains for future spending.
 - *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

Richardton-Taylor Public School District No. 34
 Management's Discussion and Analysis
 June 30, 2016

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

The following chart summarizes the major features of the District's financial statements, including the portion of the District's government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Type of Statement	Government-wide	Fund Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire District except fiduciary funds	The activities of the District that are not proprietary or fiduciary	Instances in which the District is the trustee or agent for someone else's resources
Required financial statements	Statement of net position Statement of activities	Balance sheet Statement of revenues expenditures & changes in fund balances	Statement of net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included.	All assets and liabilities, both short-term and long-term, the Agency funds do not currently contain capital assets, although they can.
Type of revenues and expenses	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid.

Richardton-Taylor Public School District No. 34
Management's Discussion and Analysis
June 30, 2016

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's tax base.

The government-wide financial statements of the District are included in the category:

Governmental activities – Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, and general administration. Property taxes and state aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds* – not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The School Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the differences between them.
- *Fiduciary* – This 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. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

Richardton-Taylor Public School District No. 34
Management's Discussion and Analysis
June 30, 2016

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's net position was (\$391,981) at June 30, 2016 and (\$967,032), at June 30, 2015. The net position increased by \$575,051 for the year ended June 30, 2016.

<u>Governmental Activities</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
ASSETS		
Current and Other Assets	\$ 1,161,294	\$ 634,033
Capital and Non-Current Assets	1,699,498	1,723,732
Total Assets	<u>2,860,792</u>	<u>2,357,765</u>
DEFERRED OUTFLOWS OF RESOURCES	741,336	237,431
LIABILITIES		
Current Liabilities	79,409	109,273
Long-Term Liabilities	3,874,060	3,136,247
Total Liabilities	<u>3,953,469</u>	<u>3,245,520</u>
DEFERRED INFLOWS OF RESOURCES	40,640	316,708
NET POSITION		
Net Investment in Capital Assets	1,375,472	1,287,354
Assigned	69,933	54,259
Unassigned	<u>(1,837,386)</u>	<u>(2,308,645)</u>
Total Net Position	<u><u>\$ (391,981)</u></u>	<u><u>\$ (967,032)</u></u>

A portion of the net position is either restricted as to the purposes they can be used for or they are invested in capital assets. Unrestricted net position may be used to fund District programs in the next fiscal year.

Changes in net position. The District's total revenues were \$5,071,263. This is an increase of 14.3% from the prior year. A significant portion, 86%, of the District's revenues comes from property taxes, other taxes, and state aid. 5% comes from operating grants and contributions, 4% results from charges for services, and 5% from investment earnings and other revenues.

The total cost of all programs and services was \$4,496,212. 64% of these costs are for instruction and instruction-related services, 18% are for school administration and support service, 17% are for student support services, and 1% is for interest on long-term debt.

Governmental Activities

The District's taxes are levied for the general and building funds. Property taxes are collected by the county and remitted to the District monthly.

Richardton-Taylor Public School District No. 34
Management's Discussion and Analysis
June 30, 2016

The following table provides a summary of the District's operations for the years ended June 30, 2016 and June 30, 2015.

<u>Governmental Activities</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Revenues		
<u>Program Revenues</u>		
Charges for Services	\$ 215,704	\$ 154,182
Operating Grants & Contributions	261,121	260,424
<u>General Revenues</u>		
Property Taxes	945,766	843,807
Other Taxes	540,475	181,014
State Aid	2,857,770	2,825,100
Investment Earnings and Other Revenue	250,427	170,871
Total Revenues	<u>5,071,263</u>	<u>4,435,398</u>
Expenses		
Instruction and Instruction-Related Services	2,887,164	2,693,070
School Administration & Support Services	815,647	869,089
Student Support Services	773,169	704,356
Interest on Long-Term Debt	20,232	24,472
Total Expenses	<u>4,496,212</u>	<u>4,290,987</u>
Increase (Decrease) in Net Position	575,051	144,411
Beginning Net Position	(967,032)	1,802,479
Adjustment to Beginning Net Position	-	(2,913,922)
Net Position, Beginning of Year, as Restated	<u>(967,032)</u>	<u>(1,111,443)</u>
Ending Net Assets	<u>\$ (391,981)</u>	<u>\$ (967,032)</u>

The following table presents the cost of each of the District's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what state revenues as well as local tax dollars funded.

- The cost of all governmental activities this year was \$4,496,212, an increase of 4.8% from last year.
- The amount that our taxpayers paid for these activities through property taxes, state aid, investment earnings, and other revenue was \$4,019,387.
- Some of the cost, \$215,704, was paid by those who directly benefited from the programs.
- Grants and contributions totaled \$261,121.

<u>Governmental Activities</u>	<u>June 30, 2016</u>		<u>June 30, 2015</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction & Instruction-Related	\$ 2,887,164	\$ (2,573,932)	\$ 2,693,070	\$ (2,442,757)
School Administration & Support Services	815,647	(815,647)	869,089	(869,089)
Student Support Services	773,169	(609,576)	704,356	(540,063)

Richardton-Taylor Public School District No. 34
Management's Discussion and Analysis
June 30, 2016

Financial Analysis of the District's Funds

- Revenues from governmental fund types totaled \$5,071,147 an increase of \$647,613 compared to the preceding year.
- Property tax revenues increased approximately \$118,520 due to an increase in the number of requested mills levied for the general fund.
- Oil and gas production taxes increased \$359,461 due to a change in formula correction from the state.
- Tuition increased by \$55,727 due to increase number of special education students from out of the district.
- State aid increased \$35,246 due to an increase in foundation aid.
- Miscellaneous revenue increased by \$74,952 due to donations received for the crow's nest.
- The General Fund supplemented the hot lunch program \$95,704 for the program shortfall, due to increasing food expenses and increased number of staff members.

General Fund Budgetary Highlights

- The District's expenditure budget was amended during the year to increase expenditures by \$60,107. The revenue budget was amended during the year to increase revenue by \$153,811.
- Actual revenues were \$700,103 more than the final budget amounts primarily due to an increase in local tax revenue, tuition, oil and gas revenue, transportation funding, and food service funding.
- Overall, total expenditures were over budget by \$111,018. Several line items were in excess of the final budget amounts. The largest line items over or under budget were:
 - Instructional Media Services were under budget by \$17,209 due to additional salary and fringe benefits.
 - Supportive Service-Business expenses were \$27,944 over budget due to inaccurate budgeting of staff salary and benefits.
 - Student Activities-Extracurricular activities were \$65,104 over budget due to funds being transferred to the general fund from the activity fund to capitalize the crow's nest that was finished during the year.
 - Student Transportation expenses were \$18,914 under budget due to salary and benefit savings as well as fuel savings.
 - Vocational Education expenses were \$32,041 over budget due to changes in dues to RACTC for ITV classes.
 - Special Education expenses were \$19,970 over budget due to projected preschool attendance and para teachers needed.

Richardton-Taylor Public School District No. 34
 Management's Discussion and Analysis
 June 30, 2016

Capital Assets

At the end of fiscal year 2016, the District had invested \$1,699,498 in net capital assets, including land, buildings and improvements, equipment, and vehicles.

Capital Assets	June 30, 2016	June 30, 2015
Land	\$ 75,000	\$ 75,000
Buildings and Improvements	1,895,889	1,819,810
Construction in Progress	15,869	-
Equipment	668,216	601,701
Vehicles	433,637	433,637
Totals at Historical Costs	3,088,611	2,930,148
Depreciation	(1,389,113)	(1,206,416)
Net Capital Assets	<u>\$ 1,699,498</u>	<u>\$ 1,723,732</u>

Long Term Debt

At the end of the current fiscal year, the District had total debt outstanding of \$3,953,469. Of this amount, \$295,581 comprises an Energy Services Agreement with Energy Service Group to provide for projects detailed in the agreement through financing with SunTrust Equipment Finance and Leasing Corp. There is \$28,445 that comprises loans payable for two busses. There is also a net pension liability of \$3,603,978 due to the implementation of GASB No. 68.

The remaining amount of \$25,465 is for accrued leave under the policies adopted by the District as of July 1, 2010. Twelve month staff members are allowed to carry over 120 hours of vacation each year. Any hours in excess of 120 will be paid to the employees at June 30. The twelve month staff is allowed to carry over 240 hours of sick leave. They will be paid their sick leave time upon departure from the District at one-half their hourly rate up to a maximum of \$3,000. Teachers are not paid any sick leave upon termination. Teachers will be compensated for unused personal days at the approved substitute teacher rate for the year. 9 month employees are allowed to carryover 12 hours of personal time at year end.

The District's total debt increased from fiscal year 2015 to fiscal year 2016 by \$707,949. Note 6 of this report provides detailed information on the debt of the District. Note 8 describes the net pension liability.

Economic Factors and Next Year's Budgets and Rates

- Assessed values for the 2016-17 Budget are projected to increase by 3% from 2016.

These indicators were taken into account when adopting the general fund budget for 2017. Amounts available for appropriation in the general fund budget are \$4,530,986.

General fund expenditures are budgeted at \$4,844,151. The District has added no major new program initiatives to the 2017 budget.

If these estimates are realized, the District's budgetary general fund balance is expected to decrease by \$313,165 by close of the 2017 fiscal year.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the business manager or superintendent.

Richardton-Taylor Public School District No. 34

Statement of Net Position

June 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 1,013,154
Accounts Receivable	77,958
Due from County Treasurer	42,191
Taxes Receivable, Net	27,991
Capital Assets, Net of Depreciation	<u>1,699,498</u>
Total Assets	2,860,792
DEFERRED OUTFLOWS OF RESOURCES	
Derived from Pensions	741,336
LIABILITIES	
Long-Term Liabilities:	
Portion Due or Payable within One Year	
Loans Payable	26,278
ESG Payable	53,131
Portion Due or Payable after One Year	
Net Pension Liability	3,603,978
Loans Payable	2,167
Compensated Absences Payable	25,465
ESG Payable	<u>242,450</u>
Total Liabilities	3,953,469
DEFERRED INFLOWS OF RESOURCES	
Derived from Pensions	<u>40,640</u>
NET POSITION	
Net Investment in Capital Assets	1,375,472
Restricted for:	
Capital Projects Fund	69,933
Unrestricted	<u>(1,837,386)</u>
Total Net Position	<u>\$ (391,981)</u>

The accompanying notes are an integral part of this statement.

Richardton-Taylor Public School District No. 34

Statement of Activities
For the Year Ended June 30, 2016

	Program Revenues			Net (Expense) Revenue & Changes in Net Position
	Expenses	Charges for Services	Operating Grants & Contributions	Governmental Activities
Functions/Programs				
Governmental Activities				
Instruction & Instruction-Related Services	\$ 2,887,164	\$ 125,965	\$ 187,267	\$ (2,573,932)
School Administration & Support Services	815,647	-	-	(815,647)
Student Support Services	773,169	89,739	73,854	(609,576)
Interest on Long-Term Debt	20,232	-	-	(20,232)
Total Primary Government	\$ 4,496,212	\$ 215,704	\$ 261,121	(4,019,387)
 General Revenues:				
Taxes:				
Property Taxes, Levied for General Purpose				829,662
Property Taxes, Levied for Building Projects				116,104
Oil & Gas Production Taxes				540,475
State Aid				2,857,770
Unrestricted Investment Earnings				2,623
Other Revenues				247,804
Total General Revenues				4,594,438
 Change in Net Position				575,051
 Net Position - Beginning of Year				(967,032)
Net Position - End of Year				\$ (391,981)

The accompanying notes are an integral part of this statement.

Richardton-Taylor Public School District No. 34

Balance Sheet - Governmental Funds

June 30, 2016

	Major Funds		Total
	General	Building	Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 950,822	\$ 62,332	\$ 1,013,154
Accounts Receivable	77,958	-	77,958
Due from County Treasurer	37,707	4,484	42,191
Taxes Receivable, Net	<u>24,874</u>	<u>3,117</u>	<u>27,991</u>
TOTAL ASSETS	<u>\$ 1,091,361</u>	<u>\$ 69,933</u>	<u>\$ 1,161,294</u>
 DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Deferred Inflows of Resources:			
Uncollected Taxes	\$ 24,874	\$ 3,117	\$ 27,991
Total Deferred Inflows of Resources	<u>24,874</u>	<u>3,117</u>	<u>27,991</u>
 Fund Balances:			
Restricted for Capital Projects	-	66,816	66,816
Unassigned	<u>1,066,487</u>	<u>-</u>	<u>1,066,487</u>
Total Fund Balances	<u>1,066,487</u>	<u>66,816</u>	<u>1,133,303</u>
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 1,091,361</u>	<u>\$ 69,933</u>	<u>\$ 1,161,294</u>
 Total fund balances - governmental funds			\$ 1,133,303
 Amounts reported for <i>governmental activities</i> in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$3,088,611 and the accumulated depreciation is \$1,389,113.			1,699,498
Deferred outflows of resources are not a financial resource available for the current period and, therefore, are not reported in the governmental funds balance sheet.			741,336
The net pension liability is not due and payable in the current period and, therefore, is not reported in the governmental funds balance sheet.			(3,603,978)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.			(40,640)
Property taxes receivable will be collected this year but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.			27,991
Some liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:			
Compensated Absences Payable			(25,465)
ESG payable			(295,581)
Loans payable			<u>(28,445)</u>
 Net position of governmental activities			<u>\$ (391,981)</u>

The accompanying notes are an integral part of this statement.

Richardton-Taylor Public School District No. 34
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2016

	Major Funds		Total Governmental Funds
	General	Building	
REVENUES			
Property Taxes	\$ 973,153	\$ 116,138	\$ 1,089,291
Oil & Gas Production Taxes	540,475	-	540,475
Tuition Charges	125,965	-	125,965
Fees and Charges	107,339	-	107,339
State Aid	2,895,196	3,949	2,899,145
Federal Aid	219,746	-	219,746
Earnings on Investments	2,587	36	2,623
Miscellaneous	<u>76,079</u>	<u>10,484</u>	<u>86,563</u>
TOTAL REVENUES	4,940,540	130,607	5,071,147
EXPENDITURES			
Current:			
Regular Education Programs	1,805,870	-	1,805,870
Title I	95,166	-	95,166
Title II	37,334	-	37,334
Instructional Media Service	84,423	-	84,423
School Board	43,805	-	43,805
Executive Administration	148,063	-	148,063
Supportive Service - Business	261,069	-	261,069
Operation & Maintenance	328,560	-	328,560
Student Activities	201,874	-	201,874
Student Transportation	268,641	-	268,641
Vocational Education	214,049	-	214,049
Special Education	554,750	-	554,750
Preschool	60,989	-	60,989
Food Service	260,840	-	260,840
Capital Outlay	-	45,985	45,985
Debt Service:			
Principal	61,915	50,437	112,352
Interest	<u>1,755</u>	<u>18,477</u>	<u>20,232</u>
TOTAL EXPENDITURES	<u>4,429,103</u>	<u>114,899</u>	<u>4,544,002</u>
Excess (Deficiency) of Revenues Over (Under)			
Expenditures	<u>511,437</u>	<u>15,708</u>	<u>527,145</u>
Fund Balances - July 1, 2015	<u>555,050</u>	<u>51,108</u>	<u>606,158</u>
FUND BALANCES - JUNE 30, 2016	<u>\$ 1,066,487</u>	<u>\$ 66,816</u>	<u>\$ 1,133,303</u>

The accompanying notes are an integral part of this statement.

Richardton-Taylor Public School District No. 34

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the year ended June 30, 2016

Net change in fund balances - total governmental funds \$ 527,145

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The effect of various transactions involving capital assets consist of:

Capital assets purchased in the current period 158,463
Depreciation expense of capital assets reported (182,697)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year. 116

Compensated absences is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The net decrease in compensated absences is: (4,192)

Governmental funds report the pension expense as accrued for actual salaries paid in the expenditures. However in the statement of activities, the pension expense is an actuarial calculation of the cost of the plan accounting for projected future benefits, plan earnings, and contributions. (36,136)

The proceeds of debt issuances are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement but the repayment reduces long-term liabilities in the statement of net position. The amount of debt issued and repaid is:

Debt Repayment 112,352

Change in net position of governmental activities \$ 575,051

Richardton-Taylor Public School District No. 34

Statement of Fiduciary Net Position

June 30, 2016

Agency Funds

ASSETS

Cash and Cash Equivalents \$ 107,689

LIABILITIES

Due to Student Groups and Others \$ 107,689

The accompanying notes are an integral part of this statement.

Richardton-Taylor Public School District No. 34

Notes to Basic Financial Statements

June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Richardton-Taylor Public School District No. 34 complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The more significant of the District's accounting policies are described below.

Reporting Entity

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

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

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

Basis of Presentation

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

Richardton-Taylor Public School District No. 34

Notes to Basic Financial Statements

June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

Building Fund: This fund accounts for financial resources dedicated to the construction of new school buildings, additions to old school buildings, and the making of major repairs to existing buildings.

The agency fund accounts for assets held by the District in a purely custodial capacity and is not included in the government-wide statements. Since the agency fund is custodial in nature, it does not involve the measurement of results of operations. The District has one agency fund which accounts for monies due to student groups and others.

Measurement Focus/Basis of Accounting

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

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. All other governmental fund revenues are recognized when received.

Richardton-Taylor Public School District No. 34

Notes to Basic Financial Statements

June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Interfund Transactions

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

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

Encumbrance Accounting

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

Cash and Cash Equivalents

Cash and cash equivalents consist of amounts in demand deposits and savings accounts.

Credit Risk:

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

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

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

Investments

Investments are recorded at fair value. During the year ended June 30, 2016, the District implemented GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for applying fair value to certain investments and financial derivative instruments and disclosures related to all fair value measurements. The District's implementation of this statement required no adjustment to prior periods; however, it expanded the disclosure requirements for items carried at fair value.

Inventory

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

Richardton-Taylor Public School District No. 34

Notes to Basic Financial Statements

June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets

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

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

Buildings and Improvements	10-70 years
Equipment	5 years
Vehicles	10 years

Accrued Compensated Absences

The District adopted a policy allowing twelve month staff to be paid for unused vacation and sick leave. Twelve month staff members are allowed to carry over 120 hours of vacation each year and upon separation from employment will be paid any unused vacation hours. Any hours in excess of 120 will be paid to the employees at June 30. The twelve month staff members are also allowed to carry over 240 hours of sick leave. They will be paid their sick leave time upon departure from the District at one-half their hourly rate up to a maximum of \$3,000. Teachers are not paid any sick leave upon termination. Teachers will be compensated for unused personal days at the approved substitute teacher rate for the year.

A long-term liability for accrued leave as of June 30th has been recorded in the government-wide statements.

Net Position

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

Fund Balance Classifications

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

Richardton-Taylor Public School District No. 34

Notes to Basic Financial Statements

June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

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

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

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

Deferred Inflows/Outflows of Resources

Deferred inflows of resources in the fund financial statements consist of amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable but not available and include uncollected taxes.

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. See Note 7 for additional information.

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.

Richardton-Taylor Public School District No. 34

Notes to Basic Financial Statements

June 30, 2016

NOTE 2 DEPOSITS – CASH AND INVESTMENTS

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

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

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the state of North Dakota, its boards, agencies, or instrumentalities, or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing entity, and bonds issued by any other state of the United States or such other securities approved by the banking board.

As of June 30, 2016, the carrying balances of the District's bank deposits were \$1,013,154 for governmental funds and \$107,689 for agency funds. The bank balance of these deposits as of June 30, 2016, was \$1,464,892. The difference results from checks outstanding or deposits not yet processed. Of the bank balances, \$261,000 was covered by Federal Depository Insurance and \$1,203,892 was collateralized with securities held by the pledging financial institutions' agent not in the District's name. During the fiscal year ended June 30, 2016, the board reviewed the pledge of securities semi-annually as required by state law.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with GASB Statement No. 72, assets, deferred outflows of resources, liabilities and deferred inflows of resources are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1: Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2: Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The District has no assets measured at fair value.

Richardton-Taylor Public School District No. 34

Notes to Basic Financial Statements

June 30, 2016

NOTE 4 **PROPERTY TAX**

Under state law, the District is limited in its ability to levy property taxes. All school tax levies are in compliance with state laws. Property taxes attach as an enforceable lien on property on January 1. A 5% reduction is allowed if paid by February 15th. Penalty and interest are added March 1st unless the first half of the taxes have been paid. Additional penalties are added October 15th if not paid. Taxes are collected by the county and remitted monthly to the school.

In its fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end. Taxes receivable consist of current and delinquent uncollected taxes at June 30. No allowance has been established for estimated uncollectible taxes because an offsetting deferred revenue has been recorded.

In the government-wide financial statements, property taxes are recorded as a receivable and revenue when assessed.

NOTE 5 **CAPITAL ASSETS**

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

Capital assets not being depreciated:	
Land	\$ 75,000
Construction in Progress	15,869
Capital assets being depreciated:	
Building and Improvements	1,895,889
Equipment	668,216
Vehicles	433,637
Total	<u>3,088,611</u>
Less Accumulated Depreciation	<u>(1,389,113)</u>
Net – 6/30/16	<u><u>\$ 1,699,498</u></u>

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

	<u>Capital Assets</u>	<u>Accumulated Depreciation</u>
Balance – 6/30/15	\$ 2,930,148	\$ 1,206,416
Purchases	158,463	-
Current Year Depreciation Expense	-	182,697
Balance – 6/30/16	<u>\$ 3,088,611</u>	<u>\$ 1,389,113</u>

Depreciation expense for the year ended June 30, 2016 was \$182,697 and has been reported in the government-wide statement of activities under the following governmental activities:

Instruction & Instruction-Related Services	\$ 110,936
School Administration & Support Services	29,947
Student Support Services	41,814
Total Depreciation Expense	<u><u>\$ 182,697</u></u>

Richardton-Taylor Public School District No. 34

Notes to Basic Financial Statements

June 30, 2016

NOTE 6 LONG-TERM DEBT

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

	Balance 6/30/15	Issues	Payments	Balance 6/30/16	Due within one year
ESG Loan Payable	\$ 346,019	\$ -	\$ 50,438	\$ 295,581	\$ 53,131
Activity Bus Loan	21,336	-	21,336	-	-
Activity & Transportation Bus Loan	54,030	-	25,585	28,445	26,278
Handicap Bus Loan	14,993	-	14,993	-	-
Compensated Absences Payable*	21,273	4,192	-	25,465	-
Total	\$ 457,651	\$ 4,192	\$ 112,352	\$ 349,491	\$ 79,409

* The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions.

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

For the year ended June 30,	Principal	Interest	Total
2017	\$ 79,409	\$ 16,225	\$ 95,634
2018	58,135	13,004	71,139
2019	58,956	9,958	68,914
2020	62,105	6,810	68,915
2021	65,421	3,500	68,921
Total	\$ 324,026	\$ 49,497	\$ 373,523

Long-term debt payable includes the following issues:

Loans Payable

Energy Services Agreement - SunTrust: loan dated April 21, 2009; due in annual payments of \$68,915, including interest, through 2021; interest at 5.34 percent. \$ 295,581

Activity & Transportation Bus Loan Payable: loan dated July 30, 2012; due in monthly payments of \$2,227, including interest through 2017; interest at 2.63 percent. 28,445

\$ 324,026

Richardton-Taylor Public School District No. 34

Notes to Basic Financial Statements

June 30, 2016

NOTE 7 DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES (PENSION)

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

Deferred Outflows of Resources	
Derived from pension	<u>\$ 741,336</u>
Deferred Inflows of Resources	
Derived from pension	<u>\$ 40,640</u>

Note 8 of the financial statements contains details of the pension plan.

NOTE 8 PENSION PLAN

North Dakota Teacher's Fund for Retirement

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

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

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

Richardton-Taylor Public School District No. 34

Notes to Basic Financial Statements

June 30, 2016

NOTE 8 PENSION PLAN – 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 1 Non-grandfathered

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

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

Tier 2

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

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

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.

Richardton-Taylor Public School District No. 34

Notes to Basic Financial Statements

June 30, 2016

NOTE 8 PENSION PLAN – CONTINUED

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

Member and Employer Contributions

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

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

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

At June 30, 2016, the District reported a liability of \$3,603,978 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2015, the District's proportion was 0.275564 percent which was an increase of .009501 percent from its proportion measured as of July 1, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$254,807. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 23,617	\$ -
Changes of assumptions	404,665	-
Net difference between projected and actual earnings on pension plan investments	-	40,640
Changes in proportion and differences between employer contributions and proportionate share of contributions.	94,373	-
Employer contributions subsequent to the measurement date (see below)	218,681	-
Total	<u>\$ 741,336</u>	<u>\$ 40,640</u>

Richardton-Taylor Public School District No. 34

Notes to Basic Financial Statements

June 30, 2016

NOTE 8 PENSION PLAN – CONTINUED

\$218,681 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

<u>For the year ended June 30,</u>	
2017	\$ 57,061
2018	57,061
2019	57,061
2020	139,066
2021	87,723
Thereafter	84,042

Actuarial Assumptions

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

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

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

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

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

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

Richardton-Taylor Public School District No. 34

Notes to Basic Financial Statements

June 30, 2016

NOTE 8 PENSION PLAN – CONTINUED

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	57%	7.5%
Global Fixed Income	22%	1.3%
Global Real Assets	20%	5.4%
Cash Equivalents	1%	0.0%

Discount Rate

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Employer’s proportionate share of the net pension liability	\$4,762,827	\$3,603,978	\$2,637,522

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.

Richardton-Taylor Public School District No. 34

Notes to Basic Financial Statements

June 30, 2016

NOTE 9 **RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the State for risk management issues.

In 1986 state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRF), 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 NDRF for its general insurance coverage. The coverage by NDRF is limited to losses of \$2,000,000 per occurrence.

The District participates in the North Dakota Worker's Compensation Bureau, an Enterprise Fund of the State of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

The District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the District with blanket fidelity bond coverage in the amount of \$1,000,000 for its employees. The State Bond Fund does not currently charge any premium for this coverage.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 10 **EXPENDITURES IN EXCESS OF BUDGET**

For the fiscal year ended June 30, 2016, expenditures in the general fund were over budget by \$111,018. No remedial action is anticipated. Revenues were also over budget by \$700,103.

NOTE 11 **SUBSEQUENT EVENTS**

Richardton-Taylor Public School District is planning on building a new school in 2017. They have been granted a 5.6-million dollar bond in July of 2016 and are also planning on receiving state funds to complete the project. construction in progress as of June 30, 2016 is \$15,869 for the building plans of the project.

***REQUIRED
SUPPLEMENTARY INFORMATION***

Richardton-Taylor Public School District No. 34

Required Supplementary Information

For the Year Ended June 30, 2016

Schedule of Employer's Share of Net Pension Liability

ND Teachers' Fund for Retirement

Last 10 Fiscal Years *

	2016	2015
Employer's proportion of the net pension liability (asset)	0.275564%	0.266063%
Employer's proportionate share of the net pension liability (asset)	\$ 3,603,978	\$ 2,787,869
Employer's covered-employee payroll	\$ 1,695,010	\$ 1,543,307
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	212.62%	180.64%
Plan fiduciary net position as a percentage of the total pension liability	62.1%	66.6%

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

Schedule of Employer Contributions

ND Teachers' Fund for Retirement

Last 10 Fiscal Years *

	2016	2015
Statutorily required contribution	\$ 216,103	\$ 165,904
Contributions in relation to the statutorily required contribution	\$ (216,103)	\$ (165,904)
Contribution deficiency (excess)	\$ -	\$ -
Employer's covered-employee payroll	\$ 1,695,010	\$ 1,543,307
Contributions as a percentage of covered-employee payroll	12.75%	10.75%

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

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

See independent auditor's report and notes to financial statements.

Richardton-Taylor Public School District No. 34

Budgetary Comparison Schedule

General Fund

For the year ended June 30, 2016

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Property Taxes	\$ 746,234	\$ 878,967	\$ 973,153	\$ 94,186
Oil & Gas Production Taxes	165,000	130,000	540,475	410,475
Tuition Charges	57,200	66,000	125,965	59,965
Fees and Charges	101,450	96,300	107,339	11,039
State Aid	2,821,942	2,850,834	2,895,196	44,362
Federal Aid	194,400	218,086	219,746	1,660
Earnings on Investments	400	250	2,587	2,337
Miscellaneous	-	-	76,079	76,079
TOTAL REVENUES	4,086,626	4,240,437	4,940,540	700,103
EXPENDITURES				
Current:				
Regular Education Programs	1,722,012	1,801,266	1,805,870	(4,604)
Federal Programs	121,304	132,509	132,500	9
Instructional Media Service	74,557	101,632	84,423	17,209
School Board	49,191	42,360	43,805	(1,445)
Executive Administration	145,521	148,328	148,063	265
Supportive Service - Business	214,263	233,125	261,069	(27,944)
Operation & Maintenance	336,137	331,601	328,560	3,041
Student Activities	131,684	136,770	201,874	(65,104)
Student Transportation	310,710	287,555	268,641	18,914
Vocational Education	206,405	182,008	214,049	(32,041)
Special Education	543,711	534,780	554,750	(19,970)
Preschool	85,315	60,257	60,989	(732)
Food Service	235,534	261,634	260,840	794
Debt Service:				
Principal	76,435	59,996	61,915	(1,919)
Interest	5,199	4,264	1,755	2,509
TOTAL EXPENDITURES	4,257,978	4,318,085	4,429,103	(111,018)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(171,352)	(77,648)	511,437	589,085
Fund Balances - July 1, 2015	555,050	555,050	555,050	-
FUND BALANCES - JUNE 30, 2016	\$ 383,698	\$ 477,402	\$ 1,066,487	\$ 589,085

The accompanying notes are an integral part of this statement.

Richardton-Taylor Public School District No. 34
Notes to Required Supplementary Information
June 30, 2016

NOTE 1 CHANGES OF ASSUMPTIONS – ND TEACHER’S FUND FOR RETIREMENT

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

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

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The District adopts an annual budget consistent with accounting principles generally accepted in the United States for the general fund only. The following procedures are used in establishing the budgetary data reflected in the financial statements:

- The annual budget must be prepared and school district taxes must be levied on or before August 15 each year.
- The taxes levied must be certified to the county auditor by August 25.
- The operating budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the business manager at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.
- The balance of each appropriation becomes a part of the unappropriated fund balance at year-end.

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

Governing Board
Richardton-Taylor Public School District No. 34
Richardton, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Richardton-Taylor Public School District No. 34 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 8, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Richardton-Taylor Public School District No. 34'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 Richardton-Taylor Public School District No. 34's internal control. Accordingly, we do not express an opinion on the effectiveness of Richardton-Taylor Public School District No. 34's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2016-001, 2016-002 and 2016-003 that we consider to be significant deficiencies.

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

Compliance and Other Matters


As part of obtaining reasonable assurance about whether Richardton-Taylor Public School District No. 34's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

Richardton-Taylor Public School District No. 34's Response to Findings

Richardton-Taylor Public School District No. 34's responses to the findings identified in our audit are described in the accompanying schedule of findings. Richardton-Taylor Public School District No. 34's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



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

Richardton-Taylor Public School District No. 34

Schedule of Findings

For the Year Ended June 30, 2016

Finding 2016-001: Segregation of Duties

Condition – There are two individuals responsible for the majority of accounting functions. Considering the size of the entity, it is not feasible to obtain proper segregation of duties and the degree of internal control is severely limited.

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

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

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

Recommendation – This is not unusual in districts of this size, but the board should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. The board should also think about adopting a formal policy and procedure manual.

Management Response – We are aware of the limitations. No further response is considered necessary.

Finding 2016-002: Preparation of Financial Statements

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

Criteria – Complete and accurate presentation of the financial statements in conformity with generally accepted accounting principles is required.

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

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

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

Management Response – We are aware of the situation and no response is considered necessary.

Richardton-Taylor Public School District No. 34
Schedule of Findings
For the Year Ended June 30, 2016

Finding 2016-003: Journal Entries

Condition – Several journal entries for capital assets were required to be made during the audit to present accurate financial statements as a complete list of additions was not provided by management.

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

Cause – The unrecorded transactions were unusual financial activities for the District.

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

Recommendation – Management should make sure that all financial transactions are recorded throughout the year.

Management Response – Efforts will be made to ensure all activities are properly recorded.