RUGBY PUBLIC SCHOOL DISTRICT NO. 5
RUGBY, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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RUGBY PUBLIC SCHOOL DISTRICT NO. 5
ROSTER OF SCHOOL OFFICIALS
AS OF JUNE 30, 2016

Chuck Volk	President
Kris Blessum	Vice President
Dustin Hager	Board Member
Shane Livedalen	Board Member
Carlie Johnson	Board Member
Mike McNeff	Superintendent
Dawn Hauck	Business Manager

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the President and Board Members
Rugby Public School District No. 5
Rugby, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the Rugby Public School District No. 5, which comprise the governmental activities, each major fund, and the remaining fund information 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining fund information of the Rugby Public School District No. 5, 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 Matter

Change of Accounting Principles

As described in Note 14 to the financial statements, the District adopted a change in accounting principles from a modified cash basis of accounting to the accrual basis of accounting. As discussed in Note 14 to the financial statements, the District has restated the previously reported Net Position in accordance with this statement. 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 budgetary comparison information for the general fund and food service fund, schedule of District's contributions to the TFFR and NDPERS pension plans, and schedule of District's proportionate share of net pension liability as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The roster of school officials and budgetary comparison information for the capital projects fund and debt service fund listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The roster of school officials on page 1 and budgetary comparison information for the capital projects fund and debt service fund have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2016 on our consideration of the District'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 the District's internal control over financial reporting and compliance.

Brady Martz

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

November 4, 2016

RUGBY PUBLIC SCHOOL DISTRICT NO. 5
STATEMENT OF NET POSITION
AS OF JUNE 30, 2016

	Governmental Activities
ASSETS	
Current Assets	
Cash and Investments	$ 4,743,762
Taxes Receivable, Net	239,192
Due from State	81,243
Total Current Assets	5,064,197
Non-Current Assets	
Capital Assets	
Land and Improvements	710,716
Buildings	14,796,646
Equipment and Furniture	655,731
Other Capital Assets	97,777
Less: Accumulated Depreciation	(5,367,768)
Total Capital Assets	10,893,102
TOTAL ASSETS	15,957,299
DEFERRED OUTFLOWS OF RESOURCES	
Cost Sharing Defined Benefit Pension Plan - TFFR	1,187,880
Cost Sharing Defined Benefit Pension Plan - NDPERS	100,230
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,288,110
LIABILITIES	
Accounts Payable	13,319
Payroll Deductions	99,945
Interest Payable	71,238
Early Retirement Due Within One Year	24,816
Certificate of Indebtedness Due Within One Year	25,659
Special Assessments Due Within One Year	12,267
Bonds Payable Due Within One Year	130,000
Total Current Liabilities	377,244
Non-Current Liabilities	
Certificate of Indebtedness (Net of Current Maturities)	26,454
Special Assessments (Net of Current Maturities)	85,880
Bonds Payable (Net of Current Maturities)	7,613,162
Compensated Absences	16,331
Net Pension Liability	7,023,698
Total Non-Current Liabilities	14,765,525
TOTAL LIABILITIES	15,142,769
DEFERRED INFLOWS OF RESOURCES	
Cost Sharing Defined Benefit Pension Plan - TFFR	80,540
Cost Sharing Defined Benefit Pension Plan - NDPERS	55,839
TOTAL DEFERRED INFLOWS OF RESOURCES	136,379
NET POSITION	
Net Investment in Capital Assets	3,149,940
Restricted for Capital Projects	141,144
Restricted for Debt Service	2,628,840
Unrestricted	(3,953,663)
TOTAL NET POSITION	$ 1,966,261

See Notes to the Financial Statements

RUGBY PUBLIC SCHOOL DISTRICT NO. 5
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

		Program Revenues		Net (Expense) Revenues and Changes in Net Position
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Governmental Activities**
Primary Government				
Governmental Activities				
Instruction:				
Regular	$ 3,724,007	$ 72,475	$ 263,171	$ (3,388,361)
Special Education	602,566	7,859	8,665	(586,042)
Vocational Education	367,891	-	68,652	(299,239)
Total Instruction	4,694,464	80,334	340,488	(4,273,642)
Support Services:				
Pupil Services	402,024	-	-	(402,024)
Instructional Staff Services	313,087	-	-	(313,087)
General Administration Services	438,239	-	-	(438,239)
School Administration Services	335,601	-	-	(335,601)
Business Services	108,687	-	-	(108,687)
Operations and Maintenance	507,039	-	-	(507,039)
Pupil Transportation Services	472,269	-	267,685	(204,584)
Extracurricular Activities	332,382	10,703	-	(321,679)
Food Services	338,700	181,539	129,116	(28,045)
Interest on Long-Term Debt	388,204	-	-	(388,204)
Total Support Services	3,636,232	192,242	396,801	(3,047,189)
Total Governmental Activities	$ 8,330,696	$ 272,576	$ 737,289	(7,320,831)

General Revenues:	
Taxes:	
Property Taxes, Levied for General Purposes	1,974,680
Property Taxes, Levied for Debt Service	638,265
Property Taxes, Levied for Capital Projects	123,206
State Aid Not Restricted For Specific Purpose	
Per Pupil Aid	4,511,332
Federal Aid Not Restricted For Specific Purpose	
Other Federal Aid	295,258
Interest Income and Other Revenues	238,511
Total General Revenues	7,781,252
Change in Net Position	460,421
Net Position - Beginning	1,236,687
Prior Period Adjustment - See Footnote 14	269,153
Net Position - Beginning as Restated	1,505,840
Net Position - Ending	$ 1,966,261

See Notes to the Financial Statements

RUGBY PUBLIC SCHOOL DISTRICT NO. 5
BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF JUNE 30, 2016

	General Fund	Food Service	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS					
Cash and Investments	$ 1,598,844	$ 7,144	$ 138,537	$ 2,999,237	$ 4,743,762
Taxes Receivable, Net	170,867	-	10,980	57,345	239,192
Due from State	81,243	-	-	-	81,243
TOTAL ASSETS	$ 1,850,954	$ 7,144	$ 149,517	$ 3,056,582	$ 5,064,197
LIABILITIES					
Accounts Payable	$ 13,319	$ -	$ -	$ -	$ 13,319
Payroll Deductions	99,607	338	-	-	99,945
TOTAL LIABILITIES	112,926	338	-	-	113,264
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Delinquent Taxes	129,993	-	8,373	44,110	182,476
TOTAL DEFERRED INFLOWS OF RESOURCES	129,993	-	8,373	44,110	182,476
FUND BALANCES:					
Restricted for Capital Projects	-	-	141,144	-	141,144
Restricted for Debt Service	-	-	-	3,012,472	3,012,472
Assigned for Food Service	-	6,806	-	-	6,806
Unassigned	1,608,035	-	-	-	1,608,035
TOTAL FUND BALANCES	1,608,035	6,806	141,144	3,012,472	4,768,457
TOTAL LIABILITIES AND FUND BALANCES	$ 1,850,954	$ 7,144	$ 149,517	$ 3,056,582	$ 5,064,197

See Notes to the Financial Statements

RUGBY PUBLIC SCHOOL DISTRICT NO. 5
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

Total fund balance, governmental funds		$ 4,768,457
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore, are not reported as net assets in government funds:		
Cost of Capital Assets	$ 16,260,870	
Less: Accumulated Depreciation	(5,367,768)	
Net		10,893,102
Net deferred outflows/(inflows) of resources relating to the cost sharing of defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows/(inflows) of resources in the governmental funds.		1,151,731
Property taxes receivable will be collected during the year, but are not available soon enough to pay for the current period's expenditures and therefore, are deferred in the funds.		182,476
Bond discounts that are amortized over the life of the debt issue		51,838
Long-term liabilities, including special assessments, are not due and payable in the current period and therefore, are not recorded as liabilities in the governmental funds.		
Bonds Payable		(7,795,000)
Certificate of Indebtedness		(52,113)
Special Assessments		(98,147)
Compensated Absences		(16,331)
Early Retirement		(24,816)
Net Pension Liability		(7,023,698)
Interest payable is not due and payable in the current period and therefore is not reported as a liability in the governmental funds.		(71,238)
Net position of governmental activities in the Statement of Net Position		$ 1,966,261

See Notes to the Financial Statements

RUGBY PUBLIC SCHOOL DISTRICT NO. 5
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Food Service	Capital Projects Fund	Debt Service	Total Governmental Funds
REVENUES					
Local Property Tax Levies	$ 2,041,739	$ -	$ 127,720	$ 666,580	$ 2,836,039
Other Local and County Revenues	97,172	181,539	8,343	-	287,054
Revenue from State Sources	4,845,147	3,618	-	-	4,848,765
Revenue from Federal Sources	259,880	125,498	-	295,258	680,636
Gain/(Loss) on Fair Value Investments	-	-	-	236,600	236,600
Interest	1,608	-	10	293	1,911
TOTAL REVENUES	7,245,546	310,655	136,073	1,198,731	8,891,005
EXPENDITURES					
Current:					
Regular Instruction	2,975,707	-	-	-	2,975,707
Special Education	602,566	-	-	-	602,566
Vocational Education	367,891	-	-	-	367,891
Pupil Services	402,024	-	-	-	402,024
Instructional Staff Services	354,030	-	-	-	354,030
General Administration Services	423,933	-	-	8,974	432,907
School Administration Services	335,601	-	-	-	335,601
Business Services	108,687	-	-	-	108,687
Operations and Maintenance	498,190	-	2,565	-	500,755
Pupil Transportation Services	470,560	-	-	-	470,560
Extracurricular	330,598	-	-	-	330,598
Food Service	-	335,303	-	-	335,303
Capital Outlays:	13,319	-	140,503	-	153,822
Debt Service:					
Principal Retirement	-	-	37,155	120,000	157,155
Interest and Fees on Long-Term Debt	-	-	4,417	379,215	383,632
TOTAL EXPENDITURES	6,883,106	335,303	184,640	508,189	7,911,238
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	362,440	(24,648)	(48,567)	690,542	979,767
OTHER FINANCING SOURCES (USES)					
Transfers In	-	25,200	-	-	25,200
Transfers Out	(25,200)	-	-	-	(25,200)
TOTAL OTHER FINANCING SOURCES (USES)	(25,200)	25,200	-	-	-
NET CHANGE IN FUND BALANCES	337,240	552	(48,567)	690,542	979,767
FUND BALANCE - BEGINNING OF YEAR	1,129,785	6,254	189,711	2,321,930	3,647,680
PRIOR PERIOD ADJUSTMENT	141,010	-	-	-	141,010
FUND BALANCE - END OF YEAR	$ 1,608,035	$ 6,806	$ 141,144	$ 3,012,472	$ 4,768,457

See Notes to the Financial Statements

RUGBY PUBLIC SCHOOL DISTRICT NO. 5
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:		$ 979,767
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense. In the current period, these amounts are:		
Captial Outlay	$ 153,822	
Depreciation Expense	(380,930)	(227,108)
Changes in deferred outflows and inflows of resources related to net pension liability		970,136
Change in net pension liability		(1,356,017)
Governmental funds report the effects of premiums, discounts, and similar items when debt is first issued. In contrast, these amounts are deferred and amortized in the Statement of Activities. This is the amount of current year amortization of bond discounts.		(5,465)
Changes in special assessments		12,268
Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These items consisted of the (increase)/decrease in:		
Early Retirement		39,819
Compensated Absences		1,124
Some revenues will not be collected for several months after the District's fiscal year end. These revenues are not considered "available" revenues in the governmental funds. These consist of :		
Net change in unavailable property taxes		(99,883)
Repayment of long-term debt is reported as an expenditure in governmental funds. However, the repayment reduces long-term liabilities in the statement of net position.		144,887
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Accrued interest decreased by $893.		893
Change in net position of governmental activities		$ 460,421

See Notes to the Financial Statements

RUGBY PUBLIC SCHOOL DISTRICT NO. 5
STATEMENT OF ASSETS AND LIABILITIES – FIDUCIARY FUND
AS OF JUNE 30, 2016

ASSETS	
Cash and cash equivalents	$ 153,038
Total assets	$ 153,038
LIABILITIES	
Due to students	$ 153,038
Total liabilities	$ 153,038

See Notes to the Financial Statements

NOTE 1 DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Rugby Public School District No. 5 operates the public schools in the City of Rugby, North Dakota. The District's basic financial statements include the accounts of all of the District's operations.

Reporting entity - Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of an organization's governing body and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources. Component units may also include organizations that are fiscally dependent on the District. Fiscal dependence can include the District's approval of the budget, issuance of debt, and/or levying of taxes for the organization.

Based on the above criteria, there are no component units included in the District's reporting entity.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are presented in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

Basis 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 consist of a Statement of Net Position and a Statement of Activities. These statements display information about the District as a whole.

The Statement of Net Position presents the financial condition of the governmental activities of the District at year-end.

The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. The statement identifies the extent to which each governmental function is self-financing or drawing from the general revenues of the District. Direct expenses are expenses that are specifically associated with a service, program or department. The direct expenses are clearly identifiable to a particular function. Program revenues include charges to recipients for goods or services offered by the program, or grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District.

As a general rule, the effect of inter-fund activity has been eliminated from the district-wide statements.

The government-wide financial statements do not include fiduciary funds or component units that are fiduciary in nature.

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. The fiduciary fund is reported by type.

Fund Accounting

The District's funds consist of the following:

Governmental Funds:

Governmental funds are utilized to account for most of the District's governmental functions. The reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which the obligation will be paid. Fund balance represents the difference between the governmental fund assets, deferred outflows and inflows of resources, and liabilities. The District's major governmental funds are as follows:

> **General Fund:**
> This fund is the general operating fund of the District. It accounts for all financial resources except those required to be accounted for in another fund.
>
> **Food Service:**
> This fund accounts for the financial resources associated with the District's hot lunch program.
>
> **Capital Projects:**
> This fund accounts for the financial resources associated with the District's capital projects.
>
> **Debt Service:**
> This fund is used to account for the accumulation of resources that are restricted for the payment of principal and interest on long-term obligations of governmental funds.

Additionally, the District reports the following funds:

Fiduciary Funds:

The District's only fiduciary fund is an agency fund. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The District's agency fund consists of the following:

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

Measurement Focus and Basis of Accounting

Measurement Focus:

Government-wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred inflows and outflows of resources, and liabilities associated with the operations of the District are included in the Statement of Net Position.

Fund Financial Statements:

The governmental funds are accounted for using a flow of current financial resources measurement focus. Under this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance reports on the sources and uses of current financial resources.

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

Basis of Accounting:

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Government-wide financial statements are prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The District's governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenues to be available if they are collected within 60 days of the end of its fiscal year. Expenditures are generally recorded as the related fund liability is incurred.

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

Revenues-Exchange and Non-Exchange Transactions:

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

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

Under the accrual basis of accounting, property taxes are recorded as revenue in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations 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 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.

Unearned Revenues:

Unearned revenue arises when assets are recognized in the financial statements before the revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenues.

On the governmental fund financial statements, receivables that will not be collected during the availability period have been reported as unearned revenue.

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:

The District's board follows the procedures established by North Dakota law for the budgetary process. The governing body of each School District, annually on or before the last day of July, must levy taxes. The governing body of the School District may amend its tax levy and budget for the current fiscal year on or before the tenth day of October of each year. Taxes for School District purposes must be based upon an itemized budget statement which must show the complete expenditure by program of the District for the current fiscal year and the sources of the revenue from which it is to be financed. The School Board, in levying taxes, is limited by the amount necessary to be raised for the purpose of meeting the appropriations included in the school budget of the current fiscal year, and the sum necessary to be provided as an interim fund, together with a tax sufficient in amount to pay the interest on the bonded debt of the District and to provide a sinking fund to pay and discharge the principal thereon at maturity.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The administration prepares the District's budget. The budget includes proposed expenditures and the means of financing them. The budget is prepared on the modified accrual basis of accounting.

2. The Board reviews the budget, may make revisions, and adopts the final budget on or before August 15 of each year. The budget is then filed with the county auditor by August 25 of each year.

3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10 of each year. The budget amounts shown in the financial statements are the final authorized amounts.

4. All appropriations lapse at the close of the District's fiscal year. The balance of the appropriation reverts back to each respective fund and is available for future appropriation.

Cash and Cash Equivalents:

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

Investments:

Investments are certificates of deposit with maturities of more than three months and federal agency bonds. North Dakota state statute authorizes school districts 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, instrumentalities, or organizations created by an act of Congress, b) Securities sold under agreements to repurchase, written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above, c) Certificates of deposit fully insured by the Federal Deposit Insurance Corporation of the state, d) Obligations of the state.

Fair Value Measurements:

The Organization accounts for all assets and liabilities that are being measured and reported on a fair value basis in accordance with GAAP. GAAP defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements.

When fair value measurements are required, various data is used in determining those values. This statement requires that assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.

Capital Assets:

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported as assets in the fund financial statements. All capital assets are recorded at cost (or estimated historical cost). The assets are updated for additions and retirements during the District's fiscal year. The District has established a capitalization threshold of $5,000. Donated fixed assets are recorded at their fair market values at the date received. The District does not have any infrastructure assets. Improvements that significantly extend the useful life of the asset are also capitalized.

The District's land and construction in progress costs are capitalized but are not depreciated. Interest associated with construction in progress is capitalized as part of the asset's original cost. All the remaining capital assets are depreciated over their estimated useful lives on a straight-line basis. The District has established the following useful lives:

Land Improvements	15 to 20 years
Buildings and Improvements	20 to 50 years
Equipment and Furniture	5 to 20 years
Vehicles	8 years

Accrued Liabilities and Long-Term Obligations:

All payables, accrued liabilities and long-term obligations are reported in the District's government wide financial statements. The District's governmental fund financials report only those obligations that will be paid from current financial resources.

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 Employee Retirement System (NDPERS) and Teachers' Fund for Retirement (TFFR) and additions to/deductions from NDPERS and TFFR's fiduciary net position have been determined on the same basis as they are reported by NDPERS and TFFR. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Balance Classifications:

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – consists of amounts that are not in spendable form, such as inventory and prepaid items. The District does not have any fund balance classified as nonspendable.

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

Committed – consists of internally imposed constraints. These constraints are established by Resolution of the Board of Education. The District does not have any fund balance classified as committed.

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

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

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

When committed, assigned, or unassigned resources are available for use, it is the District's policy to use resources in the following order; 1) committed, 2) assigned, and 3) unassigned.

The District has classified the spendable fund balances as Restricted, Assigned, and Unassigned and considers each to have been spent when expenditures are incurred.

Net Position:

Net position represents the difference between assets, deferred inflows of resources, deferred outflows of resources, and liabilities. Net investment in capital assets consists of the remaining undepreciated cost of the asset less the outstanding debt, net of unamortized discounts, 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 the District. External restrictions may be imposed through state or local laws, and grant or contract provisions.

Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources,* represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/expenditure) until then. The District has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents actuarial differences within the TFFR and NDPERS pension plans as well as contributions to the plan made after the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue - delinquent taxes*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District also has one item reported on the statement of net position *as cost sharing defined benefit pension plan*, which represents the actuarial differences within the NDPERS and TFFR pension plans.

Inter-fund Activity:

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as inter-fund transfers. Inter-fund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Extraordinary and Special Items:

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the School Board and are either unusual in nature or infrequent in occurrence.

Estimates:

The preparation of the 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.

Revenue Recognition - Property Taxes:

Taxes receivable consist of current and delinquent uncollected taxes at June 30, 2016.

Property taxes attach as an enforceable lien on property January 1. A five percent reduction is allowed if paid by February 15. Penalty and interest are added March 15 if the first half-of-the taxes have not been paid. Additional penalties are added October 15, if not paid. Taxes are collected by the county and usually remitted monthly to the School District.

Property tax revenue in the governmental funds is recognized in compliance with National Council of Government Accounting (NCGA) Interpretation 3, "Revenue Recognition - Property Taxes". This interpretation states that property tax revenue is recorded when it becomes available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Property tax revenue is recorded as revenue in the year the tax is levied in the government - wide financial statements. Property taxes are limited by state laws. All School District tax levies are in compliance with state laws.

Significant Group Concentrations of Credit Risk:

As of June 30, 2016, the District's receivables consist of amounts due from other governmental units within the State of North Dakota.

NOTE 3 CASH AND INVESTMENTS

Custodial Credit Risk - Deposits

In accordance with North Dakota laws, the District maintains deposits at a depository authorized by the School Board. The depository is a member of the Federal Reserve System.

North Dakota laws require that all public deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal at least 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral includes the legal investments described below, as well as certain first mortgage notes, and certain other state or local government obligations. North Dakota laws require that securities pledged as collateral be held in safekeeping by the District treasurer or in a financial institution other than that furnishing the collateral.

At June 30, 2016, the carrying amount of the District's deposits was $1,990,880 and the bank balance was $2,032,263. The entire bank balance was covered by Federal Depository Insurance or by collateral held by the District's Agent in the District's name in amounts sufficient to meet North Dakota legal requirements.

As of June 30, 2016, the District had the following investments and maturities:

	6/30/2016	Less than One Year	1-5 Years	6-10 Years	Fair Value Measurments Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Rating	Agency
Investments by Fair Value Level									
Cash & Cash Alternatives									
Cash and Money Market	$ 16,843	$ 16,843	$ -	$ -	$ 16,843	$ -	$ -		
Debt Securities									
Federal National Mortgage Assn	125,191	-	125,191	-	-	125,191	-	AAA	Moody's
Federal Home Loan Bank	100,095	-	-	100,095	-	100,095	-	AAA	Moody's
Federal National Mortgage Assn	107,590	-	-	107,590	-	107,590	-	AAA	Moody's
Federal National Mortgage Assn	104,116	104,116	-	-	-	104,116	-	AAA	Moody's
Federal Farm Credit Bank	104,249	-	-	104,249	-	104,249	-	AAA	Moody's
United States Treasury Strips	1,024,089	-	-	1,024,089	-	1,024,089	-	AAA	Moody's
United States Treasury Notes	313,875	-	-	313,875	-	313,875	-	AAA	Moody's
Federal Home Loan Mortgage Corp	909,790	-	-	909,790	-	909,790	-	AAA	Moody's
Federal Home Loan Bank	100,082	-	-	100,082	-	100,082	-	AAA	Moody's
Total Investments by Fair Value Level	$ 2,905,920	$ 120,959	$ 125,191	$ 2,659,770	$ 16,843	$ 2,889,077	$ -		

Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using prices that are observable for the investment, either directly or indirectly.

Credit Risk

The District may also invest idle funds as authorized by North Dakota laws, as follows:

a. Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.

b. Securities sold under agreements to repurchase, written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.

c. Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or the state.

d. Obligations of the state.

Interest Rate Risk

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

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer.

Custodial Credit Risk - Investments

The investments are not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement 40.

NOTE 4 CAPITAL ASSETS

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

	Balance 7/1/2015	Additions	Deductions	Reclass	Balance 6/30/2016
Capital Assets Not Being Depreciated:					
Land	$ 90,650	$ 13,070	$ -	$ -	$ 103,720
Construction in Progress	1,146,697	-	-	(1,146,697)	-
Total Capital Assets Not Being Depreciated	1,237,347	13,070	-	(1,146,697)	103,720
Capital Assets Being Depreciated:					
Land Improvements	606,996	-	-	-	606,996
Buildings and Improvements	13,522,516	127,433	-	1,146,697	14,796,646
Equipment and Furniture	642,412	13,319	-	-	655,731
Vehicles	97,777	-	-	-	97,777
Total Capital Assets Being Depreciated	14,869,701	140,752	-	1,146,697	16,157,150
Less Accumulated Depreciation					
Land Improvements	277,670	31,138	-	-	308,808
Buildings and Improvements	4,139,229	303,859	-	-	4,443,088
Equipment and Furniture	475,580	44,225	-	-	519,805
Vehicles	94,359	1,708	-	-	96,067
Total Accumulated Depreciation	4,986,838	380,930	-	-	5,367,768
Total Capital Assets Being Depreciated, Net	9,882,863	(240,178)	-	1,146,697	10,789,382
Net Capital Assets for Governmental Activities	$ 11,120,210	$ (227,108)	$ -	$ -	$ 10,893,102

In the governmental activities section of the Statement of Activities, depreciation was charged to expenses in the following governmental functions:

Depreciation	
Regular	$ 347,760
General administration	5,332
Operations and maintenance	6,284
Pupil transportation	1,709
Extracurricular	1,784
Food services	3,397
Unallocated	12,254
Instructional	2,410
Total	$ 380,930

NOTE 5 LONG-TERM DEBT OBLIGATIONS

As of June 30, 2016, long-term debt consists of special assessments, Qualified School Construction Bonds (QSCB), bonds issued to upgrade the District's heating, ventilation, and air-conditioning systems (HVAC bonds), bonds issued to finance construction and repairs of public school buildings (2013 Bonds), and the net pension liability.

Special Assessments - The District is in the process of paying off several special assessments to the City of Rugby.

Qualified School Construction Bonds – These bonds are general obligations of the District for which the full faith and credit and unlimited taxing powers of the District are pledged. The proceeds of the bonds will be used for the purpose of financing the cost of construction, reconstruction, improvement, equipping, and repair of the public school buildings. The federal government will reimburse interest payments up to 5.26% and the bonds will be repaid when the sinking fund levy reaches the amount of the bonds.

HVAC Bonds – These bonds are special obligations of the District payable solely from a special levy. The proceeds of the bonds will be used for the purpose of financing HVAC improvements, asbestos abatement and required ancillary systems to meet American Society of Heating, Refrigerating and Air Conditioning Engineers, Inc. standards for the Rugby High School.

2013 Bonds – The proceeds of the bonds are to be used for the purpose of providing funds to finance the cost of the construction, reconstruction, improvement, equipping and repair of the public school buildings including energy efficiency improvements.

Information on the long-term debt individual issues as of June 30, 2016 is as follows:

	Interest Rate	Issue Date	Maturity Date	Amount Outstanding
Qualified School Construction Bonds	5.40%	8/12/2010	5/1/2025	$ 6,000,000
HVAC Limited Tax Bonds, Series 2011	1.50% - 4.00%	5/4/2011	5/1/2026	850,000
Limited Tax Bonds, Series 2013	0.75% - 3.25%	2013	8/1/2026	945,000
2014 State Aid Anticipation				
Certificate of Indebtedness	3.10%	10/14/2014	10/20/2017	52,113
Special Assessments				
Parcel 09340000 Dist 1-09	4.00%	2011	2024	7,584
Parcel 10038000 Dist 1-09	4.00%	2011	2024	51,281
Parcel 10586000 Dist 1-09	4.00%	2011	2024	38,874
Parcel 08423000 Dist 1-09	4.00%	2011	2024	408
				$ 7,945,260

Long-term debt activity for the year ended June 30, 2016 is summarized as follows:

	Balance at Beginning of Year As Restated	Increase	Decrease	Balance at End of Year	Due Within One Year
Qualified School Construction Bonds	$ 6,000,000	$ -	$ -	$ 6,000,000	$ -
Bond Discount	(57,303)	5,465	-	(51,838)	-
HVAC Limited Tax Bonds, Series 2011	920,000	-	70,000	850,000	75,000
Limited Tax Bonds, Series 2013	995,000	-	50,000	945,000	55,000
2014 State Aid Anticipation Certificate of Indebtedness	77,000	-	24,887	52,113	25,659
Special Assessments	110,415	-	12,268	98,147	12,267
Early Retirement	64,635	24,816	64,635	24,816	24,816
Compensated Absences	17,455		1,124	16,331	
Net Pension Liability	5,667,681	2,699,774	1,343,757	7,023,698	-
	$ 13,794,883	$ 2,730,055	$ 1,566,671	$ 14,958,267	$ 192,742

The annual aggregate maturities for each debt type for the years subsequent to June 30, 2016 are as follows:

Qualified School Construction Bonds

Fiscal Year	Principal	Debt Service	IRS Subsidy	Total
2017	$ -	$ 324,000	$ (316,800)	$ 7,200
2018	-	324,000	(316,800)	7,200
2019	-	324,000	(316,800)	7,200
2020	-	324,000	(316,800)	7,200
2021	-	324,000	(316,800)	7,200
2022-2026	6,000,000	1,296,000	(1,267,200)	6,028,800
Total	$ 6,000,000	$ 2,916,000	$ (2,851,200)	$ 6,064,800

Limited Tax Bonds, Series 2013

Fiscal Year	Principal	Interest	Total
2017	$ 55,000	$ 25,042	$ 80,042
2018	55,000	24,465	79,465
2019	50,000	23,690	73,690
2020	50,000	22,640	72,640
2021	55,000	21,540	76,540
2022-2026	280,000	84,700	364,700
2027-2029	400,000	22,460	422,460
Total	$ 945,000	$ 224,537	$ 1,169,537

HVAC Limited Tax Bonds, Series 2011

Fiscal Year	Principal	Interest	Total
2017	$ 75,000	$ 28,178	$ 103,178
2018	75,000	26,565	101,565
2019	75,000	24,503	99,503
2020	80,000	22,440	102,440
2021	85,000	20,240	105,240
2022-2026	460,000	55,010	515,010
Total	$ 850,000	$ 176,936	$ 1,026,936

2014 State Aid Anticipation Certificate of Indebtedness

Fiscal Year	Principal	Interest	Total
2017	$ 25,659	$ 1,593	$ 27,252
2018	26,454	2,462	28,916
Total	$ 52,113	$ 4,055	$ 56,168

Special Assessments

Fiscal Year	Principal	Interest	Total
2017	$ 12,267	$ 3,926	$ 16,193
2018	12,269	3,435	15,704
2019	12,269	2,944	15,213
2020	12,269	2,454	14,723
2021	12,269	1,963	14,232
2022-2026	36,804	2,942	39,746
Total	$ 98,147	$ 17,664	$ 115,811

NOTE 6 FUND BALANCE

A. Classifications

At June 30, 2016, a summary of the governmental fund balance classifications is as follows:

	Capital Projects Fund	Debt Service Fund	Total
Restricted for:			
Capital Projects	$ 141,144	$ -	$ 141,144
Debt Service	-	3,012,472	3,012,472
Total Restricted	$ 141,144	$ 3,012,472	$ 3,153,616

Restricted fund balances reflect resources restricted for statutorily defined purposes not accounted for in a separate fund. At June 30, 2016, there were the following accounts:

Restricted for Debt Service:

This account represents funds held by the School District available to service long-term debt.

Restricted for Capital Projects:

This account represents funds held by the School District available to pay for Building projects.

B. Minimum Fund Balance Policy

The Board of Education has not formally adopted a fund balance policy for the General Fund, however, the Board tries to maintain a fund balance of not less than 10% of the General Fund's current annual operating expenditure budget

NOTE 7 DEFINED BENEFIT PENSION PLANS - STATEWIDE

Substantially, all employees of the District are required by state law to belong to pension plans administered by the Teacher's Fund for Retirement (TFFR) or the North Dakota Public Employee Retirement System (NDPERS), both of which are administered on a statewide basis.

Disclosures relating to these plans follow:

North Dakota Teacher's Fund For Retirement

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

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

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

Pension Benefits

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

Tier 1 Grandfathered

A Tier 1 grandfathered member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 85. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 85. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code. Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members 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.

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.

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 Costs

At June 30, 2016, the District reported a liability of $6,539,747 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2015, the Employer's proportion was 0.500036 percent which was a decrease of 0.000684 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Employer recognized pension expense of $432,696. At June 30, 2016, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 42,855	$ -
Changes in actuarial assumptions	734,301	-
Difference between projected and actual investment earnings	-	73,745
Changes in proportion	-	6,795
Contributions paid to TFFR subsequent to the measurement date	410,724	-
Total	$ 1,187,880	$ 80,540

$410,724 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017.

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

Year ending June 30:	Pension Expense Amount
2017	$ 73,868
2018	73,869
2019	73,869
2020	222,674
2021	129,507
Thereafter	122,828

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.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	57.00%	7.53%
Global Fixed Income	22.00%	1.28%
Global Real Assets	20.00%	5.38%
Cash Equivalents	1.00%	0.00%

Discount Rate

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

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
	6.75%	7.75%	8.75%
District's proportionate share of the TFFR net pension liability:	$ 8,642,585	$ 6,539,747	$ 4,786,024

Pension Plan Fiduciary Net Position

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

North Dakota Public Employees' Retirement 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). The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

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

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

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

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

At June 30, 2016, the District reported a liability of $483,951 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 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 Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2015, the District's proportion was 0.071171 percent, which was an increase of 0.004839 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of $51,602. 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 economic experience	$ 14,040	$ -
Changes in actuarial assumptions	-	43,118
Difference between projected and actual investment earnings	-	10,216
Changes in proportion	29,743	2,505
Contributions paid to NDPERS subsequent to the measurement date	56,447	-
Total	$ 100,230	$ 55,839

$56,447 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 ending June 30, 2017.

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

Year ending June 30:	Pension Expense Amount
2017	$ (7,634)
2018	(7,634)
2019	(7,634)
2020	13,476
2021	(2,639)

Actuarial Assumptions

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

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

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

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

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary 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	31.00%	6.90%
International Equity	21.00%	7.55%
Private Equity	5.00%	11.30%
Domestic Fixed Income	17.00%	1.52%
International Fixed Inc.	5.00%	0.45%
Global Real Assets	20.00%	5.38%
Cash Equivalents	1.00%	0.00%

Discount Rate

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the 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:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
	7.00%	8.00%	9.00%
District's proportionate share of the TFFR net pension liability:	$ 742,114	$ 483,951	$ 272,726

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 8 RISK MANAGEMENT

Rugby Public School District No. 5 is exposed to various risks 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 on one million dollars per occurrence.

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 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 $2,000,000 for its employees. The state Bonding Fund does not currently charge any premium for this coverage.

The District 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 fiscal periods.

NOTE 9 NONMONETARY TRANSACTIONS

The District received food commodities from the federal government to subsidize its hot lunch program. The market value of commodities received for the year ended June 30, 2016 was $27,002.

NOTE 10 EXPENDITURES IN EXCESS OF APPROPRIATIONS

The Food Service fund had actual expenditures in excess of budgeted appropriations in the amounts of $39,747 for the year ended June 30, 2016.

NOTE 11 CONTINGENT LIABILITIES

The District received financial assistance from federal and state agencies in the form of grants. The expenditures of funds received under these programs generally require compliance with items and conditions specified in the grant agreements and are subject to audit by the grantor agencies. The District's management believes it has complied in all material respects with all applicable grant provisions. In the opinion of management, any possible disallowed claims would not have a material adverse effect on the overall financial position of the District as of June 30, 2016.

NOTE 12 COMMITMENTS

The District has a contract with Hartley's School Bus Service to provide rural route, activities, and winter in-city transportation for students in grades K-12. The term of the contract is from August 15, 2010 through the last day of the 2016-17 school year. The District pays for these services on a per-route or per-mile basis, with periodic adjustments for cost of living increases and fuel price changes. Transportation fees paid under this contract for the year ended June 30, 2016 totaled $406,756.

NOTE 13 TRANSFERS

The transfers as of June 30, 2016 consist of the following:

Transfers In	Transfers Out	Amount
Food Service Fund	General Fund	$ 25,200

The transfer was made to support the Food Service Fund for food service expenses exceeding revenues.

NOTE 14 CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION AND FUND BALANCE

The District implemented a change in accounting principle, switching from the modified cash basis of accounting to the accrual basis of accounting. As a result, beginning net position has been restated on July 1, 2015 as follows:

Net Position July 1, 2015, as Previously Reported	$ 1,236,687
Restatement for:	
Accounts Receivable Beginning Balance	141,010
Property Taxes Receivable Beginning Balance	282,364
Interest Payable Beginning Balance	(72,131)
Early Retirement Payable Beginning Balance	(17,455)
Compensated Absences Payable Beginning Balance	(64,635)
Net Position July 1, 2015, as Restated	$ 1,505,840

The District implemented a change in accounting principle, switching from the modified cash basis of accounting to the accrual basis of accounting. As a result, beginning fund balance has been restated on July 1, 2015 as follows:

Fund Balance July 1, 2015, as Previously Reported	$ 1,129,785
Restatement for:	
Accounts Receivable Beginning Balance	141,010
Property Taxes Receivable Beginning Balance	282,364
Deferred Revenue Beginning Balance	(282,364)
Fund Balance July 1, 2015, as Restated	$ 1,270,795

NOTE 15 NEW PRONOUNCEMENTS

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

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

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement is effective for reporting periods beginning after June 15, 2015. Earlier application is permitted.

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This Statement is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 80, *Blending Requirements for Certain Component Units, an Amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

GASB Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

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

NOTE 16 SUBSEQUENT EVENTS

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through November 4, 2016, which is the date these financial statements were available to be issued.

RUGBY PUBLIC SCHOOL DISTRICT NO. 5
BUDGETARY COMPARISON SCHEDULE OF THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Property Taxes	$ 1,900,711	$ 2,041,739	$ 141,028
Other Local Sources	86,695	97,172	10,477
State Sources	4,774,983	4,845,147	70,164
Federal Sources	318,047	259,880	(58,167)
Interest	1,500	1,608	108
Total Revenues	7,081,936	7,245,546	163,610
EXPENDITURES			
Instruction:			
Regular	2,978,041	2,975,707	2,334
Special Education	615,317	602,566	12,751
Vocational Education	357,756	367,891	(10,135)
Total Instruction	3,951,114	3,946,164	4,950
Support Services:			
Pupil Services	428,599	402,024	26,575
Instructional Staff Services	382,956	354,030	28,926
General Administration Services	435,133	423,933	11,200
School Administration Services	343,747	335,601	8,146
Business Services	110,015	108,687	1,328
Operations and Maintenance	507,889	511,509	(3,620)
Pupil Transportation Services	494,634	470,560	24,074
Extracurricular	325,182	330,598	(5,416)
Total Support Services	3,028,155	2,936,942	91,213
Total Expenditures	6,979,269	6,883,106	96,163
Excess (Deficiency) of Revenues Over Expenditures	102,667	362,440	259,773
OTHER FINANCING USES			
Transfers Out	(25,000)	(25,200)	(200)
Total Other Financing Uses	(25,000)	(25,200)	(200)
Net Change in Fund Balances	77,667	337,240	259,573
Fund Balance - Beginning	1,129,785	1,129,785	-
Prior Period Adjustment	141,010	141,010	-
Fund Balance - Beginning, as Restated	1,270,795	1,270,795	-
Fund Balances - Ending	$ 1,348,462	$ 1,608,035	$ 259,573

See Notes to the Required Supplementary Information

RUGBY PUBLIC SCHOOL DISTRICT NO. 5
BUDGETARY COMPARISON SCHEDULE OF THE FOOD SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Other Local Sources	$ 150,550	$ 181,539	$ 30,989
State Sources	1,800	3,618	1,818
Federal Sources	95,000	125,498	30,498
Total Revenues	247,350	310,655	63,305
EXPENDITURES			
Support Services:			
Food Service	295,556	335,303	(39,747)
Total Support Services	295,556	335,303	(39,747)
Total Expenditures	295,556	335,303	(39,747)
Excess (Deficiency) of Revenues Over Expenditures	(48,206)	(24,648)	23,558
OTHER FINANCING SOURCES			
Transfers In	25,000	25,200	200
Total Other Financing Sources	25,000	25,200	200
Net Change in Fund Balances	(23,206)	552	23,758
Fund Balance - Beginning	6,254	6,254	-
Fund Balance - Ending	$ (16,952)	$ 6,806	$ 23,758

See Notes to the Required Supplementary Information

RUGBY PUBLIC SCHOOL DISTRICT NO. 5
SCHEDULE OF DISTRICT'S CONTRIBUTIONS TO THE TFFR AND NDPERS PENSION PLANS
LAST TEN YEARS

Teachers Fund for Retirement

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2016	$ 410,724	$ (410,724)	-	$ 3,221,363	12.75%
2015	392,295	(392,295)	-	3,084,775	12.72%

North Dakota Public Employees Retirement System

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2016	$ 56,447	$ (56,447)	-	$ 683,375	8.26%
2015	52,383	(52,383)	-	634,173	8.26%

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for prior years is not available.

See Notes to the Required Supplementary Information

RUGBY PUBLIC SCHOOL DISTRICT NO. 5
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST TEN YEARS

Teachers Fund for Retirement

For the Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	District's Covered-Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.5000360%	$ 6,539,747	$ 3,075,745	212.62%	62.10%
2015	0.5007200%	5,246,658	3,084,775	170.08%	66.60%

North Dakota Public Employees Retirement System

For the Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	District's Covered-Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.071171%	$ 483,951	$ 634,043	76.33%	77.15%
2015	0.066332%	421,023	558,762	75.35%	77.70%

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30 of the previous fiscal year.

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for prior years is not available.

See Notes to the Required Supplementary Information

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

The District's Board follows the procedures established by North Dakota law for the budgetary process. The governing body of each School District, annually on or before the last day of July must levy taxes. The governing body of the School District may amend its tax levy and budget for the current fiscal year on or before the tenth day of October of each year. Taxes for School District purposes must be based upon an itemized budget statement which must show the complete expenditure by program of the District for the current fiscal year and the sources of the revenue from which it is to be financed. The School Board, in levying taxes, is limited by the amount necessary to be raised for the purpose of meeting the appropriations included in the school budget of the current fiscal year, and the sum necessary to be provided as an interim fund, together with a tax sufficient in an amount to pay the interest on the bonded debt of the District and to provide a sinking fund to pay and discharge the principal thereon at maturity. During the current year in the General Fund, budgeted expenditures in excess of actual expenditures by $96,163.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The administration prepares the District's budget. The budget includes proposed expenditures and the means of financing them. The budget is prepared on the modified accrual basis of accounting.

2. The Board reviews the budget, may make revisions, and adopts the final budget on or before August 15th of each year. The budget is then filed with the county auditor by August 25th of each year.

3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10th of each year. The budget amounts shown in the financial statements are the final authorized amounts.

4. All appropriations lapse at the close of the District's fiscal year. The balance of the appropriation reverts back to each respective fund and is available for future appropriation.

NOTE 2 CHANGES OF ASSUMPTIONS

TFFR

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

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

NDPERS

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

RUGBY PUBLIC SCHOOL DISTRICT NO. 5
BUDGETARY COMPARISON SCHEDULE OF THE CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Property Taxes	$ 121,511	$ 127,720	$ 6,209
Other Local Sources	10,000	8,343	(1,657)
Interest	700	10	(690)
Total Revenues	132,211	136,073	3,862
EXPENDITURES			
Support Services:			
Capital Projects	126,106	143,068	(16,962)
Debt Service:			
Principal	8,833	37,155	(28,322)
Interest	-	4,417	(4,417)
Total Support Services	134,939	184,640	(49,701)
Total Expenditures	134,939	184,640	(49,701)
Excess (Deficiency) of Revenues Over Expenditures	(2,728)	(48,567)	(45,839)
Net Change in Fund Balances	(2,728)	(48,567)	(45,839)
Fund Balance - Beginning	189,711	189,711	-
Fund Balance - Ending	$ 186,983	$ 141,144	$ (45,839)

RUGBY PUBLIC SCHOOL DISTRICT NO. 5
BUDGETARY COMPARISON SCHEDULE OF THE DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Property Taxes	$ 637,297	$ 666,580	$ 29,283
Federal Sources	290,000	295,258	5,258
Other Sources	-	236,600	236,600
Interest	-	293	293
Total Revenues	927,297	1,198,731	271,434
EXPENDITURES			
Support Services:			
General Administration Services	-	8,974	(8,974)
Debt Service:			
Principal	120,000	120,000	-
Interest	379,215	379,215	-
Total Support Services	499,215	508,189	(8,974)
Total Expenditures	499,215	508,189	(8,974)
Excess (Deficiency) of Revenues Over Expenditures	428,082	690,542	262,460
Net Change in Fund Balances	428,082	690,542	262,460
Fund Balance - Beginning	2,321,930	2,321,930	-
Fund Balance - Ending	$ 2,750,012	$ 3,012,472	$ 262,460

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

To The President and Board Members
Rugby Public School District No. 5
Rugby, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the remaining fund information of Rugby Public School District No. 5 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Rugby Public School District No. 5's basic financial statements, and have issued our report thereon dated November 4, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rugby Public School District No. 5'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 Rugby Public School District No. 5's internal control. Accordingly, we do not express an opinion on the effectiveness of Rugby Public School District No. 5'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 over financial reporting 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 weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that are 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 responses as items 2016-001 and 2016-002 to be significant deficiencies in internal control over financial reporting.

Compliance and Other Matters

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

The District's Response to Findings

Rugby Public School District No. 5's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Rugby Public School District No. 5's responses were not subject 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.

Brady Martz

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

November 4, 2016

2016-001 Finding

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

Condition
The District has one employee who is responsible for all accounting functions involved. The employee has access to all income monies, receipt documents, issuance of checks, and bank statements and reconciliations. The employee also maintains the general ledger. Considering the size of the entity, it is not feasible to obtain proper separation of duties and the degree of internal control is limited.

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

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

Recommendation
The District should separate the duties when it becomes feasible.

Management's Response
The Superintendent reviews and signs off on all bank statements and reconciliations. The Superintendent also reviews and signs off on the payroll direct deposit report prior to releasing payroll to individual's accounts. Procedures have been implemented when feasible to promote the segregation of duties. Funds are counted by individuals in charge of the account prior to being given to the Business Manager or Executive Administrative Assistant to receipt and deposit at the financial institutions. The Board reviews and approves all checks written.

2016-002 Finding

Criteria
The District does not identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP).

Condition
The District's auditors prepared the financial statements as of June 30, 2016. In addition, adjusting entries were proposed to bring the financial statements into compliance with GAAP. An appropriate system of internal controls requires that a District must make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with GAAP. This requires the District's personnel to maintain a working knowledge of current accounting principles generally accepted in the United States of America (GAAP).

Cause
The District does not have the resources to prepare full accrual financial statements.

Effect
The Superintendent is aware of the deficiency and addresses it by reviewing and approving the adjusting journal entries and the completed statements prior to distribution to the end users.

Recommendation
For entities of the District's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting. The District should establish an internal control policy to document the annual review of the financial statements, disclosures and schedules.

Management's Response
The District will continue to have the auditor prepare the financial statements; however, the District has established an internal control policy to document the annual review of the financial statements.