

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BISMARCK, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
ROSTER OF SCHOOL OFFICIALS
JUNE 30, 2016

Lawrence King	President
Scott Halvorson	Vice-President
Heide Delorme	Board Member
Matt Sagsveen	Board Member
Karl Lembke	Board Member
Tamara Uselman	Superintendent
Dr. Fran Rodenburg	Assistant Superintendent
Dr. Ben Johnson	Assistant Superintendent
Darin Scherr	Business and Operations Manager



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the School Board
Bismarck Public School District No. 1
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bismarck Public School District No. 1, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Bismarck Public School District No. 1'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 aggregate remaining fund information of Bismarck Public School District No. 1, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 2 and 4 to the financial statements, Bismarck Public School District No. 1 adopted the provisions of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinions are not modified with respect to this matter.

Other Matters

Correction of an Error

As described in note 18 to the financial statements, a prior period adjustment has been made to properly state due to and due from balances, and fund balances between funds. Our opinions are not modified with respect to these matters.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedules of employer's proportionate share of net pension liability, schedules of employer contributions and notes to required supplementary information, as listed on 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bismarck Public School District No. 1's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards and notes to the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are also presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The roster of school officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on this schedule.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2016 on our consideration of Bismarck Public School District No. 1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bismarck Public School District No. 1's internal control over financial reporting and compliance.



BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

November 29, 2016

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2016

This Management's Discussion and Analysis (MD&A) of Bismarck Public District No. 1's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2016, with comparative data for the fiscal year ended June 30, 2015.

The intent of the MD&A is to look at the District's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes to the financial statements.

Financial Highlights

Key financial highlights for fiscal year 2015-16 are as follows:

- Net position of the District increased \$6,390,465 as a result of the current year's operations.
- Governmental net position totaled (\$2,469,807).
- Total revenues from all sources were \$170,972,330 and total expenditures were \$164,581,865.
- The District's general fund had \$149,430,630 in total revenues and \$154,245,302 in expenditures resulting in an excess of expenditures over revenues of \$4,814,672 for the year ended June 30, 2016.
- The unassigned general fund balance was \$12,308,358 as of June 30, 2016. This balance represents 7.98% of total general fund expenditures for the year. The unassigned general fund balance decreased by \$4,814,672 from July 1, 2015.

Using this Annual Report

This annual report consists of a series of financial statements and related footnotes. These statements are organized so the reader can understand Bismarck Public District No. 1 as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
JUNE 30, 2016

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did the District do financially during the year ended June 30, 2016?". The Statement of Net Position presents information on all the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

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

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

Reporting the District's Most Significant Funds

Balance Sheet - Governmental Funds

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

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
JUNE 30, 2016

Financial Analysis of the District as a Whole

Table I provides a summary of the District's net position as of June 30, 2016, with comparative data for the fiscal year ended June 30, 2015.

As indicated in the financial highlights, the District's net position increased by \$6,390,465 for the year ended June 30, 2016. Net position may serve over time as a useful indicator of the District's financial position.

The District's net positions are segregated into three separate categories. Net position invested in Capital Assets (net of related debt) increased \$21,939,682. It should be noted that these assets are not available for future spending. Restricted net position decreased \$13,757,596. Restricted net position represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted net position decreased \$2,702,145 which includes a prior period adjustment of \$910,524. The unrestricted net position is available to meet the District's ongoing obligations.

Table I
Net Position

	6/30/16	6/30/15
ASSETS		
Current assets	\$ 46,937,144	\$ 54,926,401
Capital assets (net of accumulated depreciation)	198,718,309	181,804,619
Total assets	245,655,453	236,731,020
DEFERRED OUTFLOWS OF RESOURCES	29,892,618	11,342,975
LIABILITIES		
Current liabilities (exc. bonds payable, capital lease payable and compensated absences)	23,997,581	15,660,836
Bonds payable	83,449,143	88,983,977
Note payable	6,545,477	6,879,531
Net pension liability	157,114,208	125,764,984
Long-term liabilities (exc. bonds and note payable and net pension liability)	3,524,094	3,283,939
Total liabilities	274,630,503	240,573,267
DEFERRED INFLOWS OF RESOURCES	3,387,375	15,450,476
NET POSITION		
Net investment in capital assets	114,722,990	92,783,308
Restricted for debt service, capital projects and self funded health insurance	5,074,664	18,832,260
Unrestricted	(122,267,461)	(119,565,316)
TOTAL NET POSITION	\$ (2,469,807)	\$ (7,949,748)

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
JUNE 30, 2016

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

Table II		
Changes in Net Position		
	2015-2016	2014-2015
REVENUES		
Program revenues		
Charges for services	\$ 5,664,175	\$ 5,321,357
Operating grants and contributions	15,344,090	13,966,618
General revenues		
Property taxes	40,705,605	37,474,331
State aid - unrestricted	107,304,723	102,216,532
Interest earnings and miscellaneous revenue	1,953,737	803,209
Total revenues	\$ 170,972,330	\$ 159,782,047
	2015-2016	2014-2015
EXPENSES		
Regular instruction	\$ 89,885,240	\$ 81,546,393
Special education	29,990,477	26,470,453
Career and technical education	6,773,682	6,224,015
District wide services	8,969,646	7,681,216
School food services	5,499,313	8,052,490
Operations and maintenance	11,530,772	10,955,675
Student transportation	4,183,432	3,294,759
Co-curricular activities	4,953,193	4,664,268
Debt service	2,796,110	3,110,857
Total expenses	\$ 164,581,865	\$ 152,000,126

Unrestricted state aid constituted 63%, property taxes 24%, operating grants and contributions 9%, and charges for services 3% of the total revenues of governmental activities of the District for fiscal year 2016.

Regular instruction comprised 55%, special education 18%, and career and technical education 4% of total expenditures for governmental activities for fiscal year 2016.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
JUNE 30, 2016

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

Table III
Total and Net Cost of Services

	Year Ended 6/30/16		Year Ended 6/30/15	
	Total Cost	Net Cost	Total Cost	Net Cost
Regular instruction	\$ 89,885,240	\$ 86,452,797	\$ 81,546,393	\$ 78,079,236
Special education	29,990,477	21,919,963	26,470,453	19,559,433
Career and technical education	6,773,682	5,879,896	6,224,015	5,468,565
District wide services	8,969,646	7,508,885	7,681,216	6,240,821
School food services	5,499,313	(795,475)	6,052,490	131,111
Operations and maintenance	11,530,772	11,530,772	10,955,675	10,955,675
Student transportation	4,183,432	4,183,432	3,294,759	3,294,759
Co-curricular activities	4,953,193	4,250,508	4,664,268	4,089,363
Other	-	(153,288)	-	(217,669)
Debt service	2,796,110	2,796,110	3,110,857	3,110,857
	<u>\$ 164,581,865</u>	<u>\$ 143,573,600</u>	<u>\$ 150,000,126</u>	<u>\$ 130,712,151</u>
Total expenses	<u>\$ 164,581,865</u>	<u>\$ 143,573,600</u>	<u>\$ 150,000,126</u>	<u>\$ 130,712,151</u>

Financial Analysis of the District's Governmental Funds

The focus of the District's governmental funds is to provide information on the near-term inflows, outflows, and balances of available resources. Unreserved fund balance generally may be used as a measure of the District's net resources available for spending at the end of the fiscal year. These funds are accounted for using the modified accrual basis of accounting. The District's general fund had total revenues of \$149,430,630 and total expenditures of \$154,245,302 for the year ended June 30, 2016. Total governmental funds had total revenues of \$169,395,823 and expenditures of \$186,375,799 for the year ended June 30, 2016.

General Fund Budgeting Highlights

Actual revenues for year ended June 30, 2016 were \$2,536,813 less than the final budget. Revenue from state sources was \$318,047 more than budgeted and revenue from local sources was \$1,414,973 less than budgeted. Revenue from federal sources was \$1,439,887 less than budgeted.

Actual expenditures for the year ended June 30, 2016 were under budget by \$2,523,559. Expenditures for regular instruction were \$1,794,259 less than budgeted and expenditures for special education were \$23,009 over budget.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
JUNE 30, 2016

Capital Assets

As of June 30, 2016, the District had \$198,718,309 invested in capital assets, net of accumulated depreciation. Table IV shows balances as of June 30, 2016 and 2015:

Table IV
CAPITAL ASSETS
(Net of Accumulated Depreciation)

CAPITAL ASSETS	6/30/16	6/30/15
Land	\$ 10,393,002	\$ 10,393,002
Buildings	171,701,414	111,302,723
Furniture and equipment	1,049,359	749,930
Vehicles and equipment	1,826,794	1,588,528
Improvements other than buildings	5,893,098	4,753,004
Construction in progress	7,854,642	53,017,432
Total capital assets (net of depreciation)	\$ 198,718,309	\$ 181,804,619

Total capital assets (before depreciation) increased from \$238,623,582 to \$260,362,053 during fiscal year 2016. Accumulated depreciation increased by \$4,824,781 from \$56,818,963 to \$61,643,744.

For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 6 of the financial statements.

Debt Administration

As of June 30, 2016, the District had \$93,518,714 in long-term debt, of which \$82,553,764 was general obligation bonds. Principal payments of \$5,624,527 are due during the 2016-2017 fiscal year on general obligation bonds. See note 9 for additional information on debt.

For the Future

The Bismarck Public School District has continued to experience strong economic growth. For fiscal year 2016, the District's taxable valuation was \$408,461,775, an increase of 12.7% from 2015. The District's taxable valuation is expected to increase by 8.3% for fiscal year 2017.

The district continues to grow and needs to address additional capacity issues due to an increase of over 350 students on the first day of the 2016-17 school year. The district has grown by 1,300 students in the last five years.

The District has sixteen elementary schools for the 6,125 students who were enrolled in grades kindergarten through fifth on the first day of the 2016-17 school year. This was an increase of 80 elementary-aged students from the beginning of the 2015-16 school year.

The District's secondary students are enrolled in three middle schools covering grades 6-8, three high schools for freshmen through seniors and one alternative high school for students over the age of 16. Secondary enrollment is up 201 students for a total of 6,407 students.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
JUNE 30, 2016

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Bismarck Public District No. 1's finances and to show the District's accountability for the money it receives to provide the best possible education to all students enrolled in the Bismarck District. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Darin M. Scherr, Business and Operations Manager, Bismarck Public Schools, 806 N Washington St., Bismarck, ND 58501; phone 701-323-4057, fax 701-323-4001, or email darin_scherr@bismarckschools.org.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS	
Current assets	
Cash	\$ 27,027,360
Investments	12,964,153
Accounts receivable	412,888
Taxes receivable	1,113,739
Intergovernmental receivable	3,357,143
Due from county treasurer	1,883,723
Inventory	178,138
Total current assets	<u>46,937,144</u>
Capital assets	
Non-depreciable	
Land	10,393,002
Construction in process	7,854,642
Depreciable, net of accumulated depreciation	
Buildings	171,701,414
Furniture and equipment	1,049,359
Vehicles and equipment	1,826,794
Improvements other than buildings	5,893,098
Total capital assets, net of depreciation	<u>198,718,309</u>
TOTAL ASSETS	<u><u>245,655,453</u></u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflow - pension	<u>29,892,618</u>
LIABILITIES	
Current liabilities	
Accounts, salaries and benefits payable	19,501,676
Incurred but not reported claims	1,136,000
Interest payable	533,565
Unearned health insurance premiums	2,826,340
Long-term liabilities due within one year	
Bonds payable	5,677,542
Note payable	359,666
Capital lease payable	38,093
Compensated absences payable	340,000
Total current liabilities	<u>30,412,882</u>
Long-term liabilities	
Long-term liabilities due after one year	
Net pension liability	157,114,208
Bonds payable	77,771,601
Note payable	6,185,811
Capital lease payable	143,151
Compensated absences payable	3,002,850
Total long-term liabilities	<u>244,217,621</u>
TOTAL LIABILITIES	<u><u>274,630,503</u></u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflow - pension	<u>3,387,375</u>
NET POSITION	
Net investment in capital assets	114,722,990
Restricted	5,074,664
Unrestricted	<u>(122,267,461)</u>
TOTAL NET POSITION	<u><u>\$ (2,469,807)</u></u>

See Notes to the Financial Statements

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues		Net
		Charges for Services	Operating Grants and Contributions	(Expense) Revenue and Changes in Net Position
				Governmental Activities
GOVERNMENTAL ACTIVITIES				
Regular instruction	\$ 89,885,240	\$ 356,797	\$ 3,075,646	\$ (86,452,797)
Special education	29,990,477	472,665	7,597,849	(21,919,963)
Career and technical education	6,773,682	-	893,786	(5,879,896)
District wide services	8,969,646	107,805	1,352,956	(7,508,885)
School food services	5,499,313	4,024,223	2,270,565	795,475
Operations and maintenance	11,530,772	-	-	(11,530,772)
Transportation	4,183,432	-	-	(4,183,432)
Co-curricular activities	4,953,193	702,685	-	(4,250,508)
Other	-	-	153,288	153,288
Interest - unallocated	2,790,321	-	-	(2,790,321)
Bond service charges and costs	5,789	-	-	(5,789)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 164,581,865	\$ 5,664,175	\$ 15,344,090	(143,573,600)

GENERAL REVENUES

Taxes	
Property taxes, levied for general purposes	27,848,390
Property taxes, levied for building purposes	4,055,107
Property taxes, levied for debt services	8,802,108
Unrestricted state aid	107,304,723
Unrestricted investment earnings	164,545
Miscellaneous revenue	1,789,192
TOTAL GENERAL REVENUES	149,964,065
Change in net position	6,390,465
Total net position, beginning of year, as previously reported	(7,949,748)
Prior period adjustment	(910,524)
Total net position, beginning of year, restated	(8,860,272)
Net position - ending	\$ (2,469,807)

See Notes to the Financial Statements

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 11,522,516	\$ 2,573,746	\$ 4,170,529	\$ 18,266,791
Investments	12,564,153	200,000	200,000	12,964,153
Accounts receivable	322,932	89,956	-	412,888
Taxes receivable	760,670	110,569	242,500	1,113,739
Intergovernmental receivable	3,165,647	-	191,496	3,357,143
Due from county treasurer	1,287,992	187,342	408,389	1,883,723
Due from other funds	-	112,237	274,645	386,882
Inventory	-	-	178,138	178,138
TOTAL ASSETS	<u>\$ 29,623,910</u>	<u>\$ 3,273,850</u>	<u>\$ 5,665,697</u>	<u>\$ 38,563,457</u>
LIABILITIES				
Accounts, salaries and benefits payable	\$ 16,168,000	\$ 2,969,741	\$ 363,935	\$ 19,501,676
Due to other funds	386,882	-	-	386,882
TOTAL LIABILITIES	<u>16,554,882</u>	<u>2,969,741</u>	<u>363,935</u>	<u>19,888,558</u>
DEFERRED INFLOWS OF RESOURCES				
Delinquent taxes	760,670	110,569	242,500	1,113,739
FUND BALANCES				
Nonspendable	-	-	178,138	178,138
Restricted	-	193,540	4,881,124	5,074,664
Unassigned	12,308,358	-	-	12,308,358
TOTAL FUND BALANCES	<u>12,308,358</u>	<u>193,540</u>	<u>5,059,262</u>	<u>17,561,160</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 29,623,910</u>	<u>\$ 3,273,850</u>	<u>\$ 5,665,697</u>	<u>\$ 38,563,457</u>

See Notes to the Financial Statements

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Total fund balances - governmental funds		\$ 17,561,160
Total net position reported for government activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of capital assets	260,362,053	
Less accumulated depreciation	<u>(61,643,744)</u>	
Net capital assets		198,718,309
Property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred inflows of resources in the funds.		
		1,113,739
Deferred outflows relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore not reported in the governmental funds.		
		29,892,618
Long-term liabilities applicable to the School District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities both current and long-term are reported in the statement of net position.		
Balances at June 30, 2016 are:		
Net pension liability	(157,114,208)	
Bonds payable	(83,449,143)	
Notes payable	(6,545,477)	
Capital lease payable	(181,244)	
Interest payable	(533,565)	
Compensated absences	<u>(3,342,850)</u>	
Total long-term liabilities		(251,166,487)
Deferred inflows relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore not reported in the governmental funds.		
		(3,387,375)
Internal service funds are used by the school to charge the costs of health insurance to departments. The assets and liabilities of internal service fund are included in the governmental activities in the statement of net position.		
		<u>4,798,229</u>
Total net position of governmental activities		<u>\$ (2,469,807)</u>

See Notes to the Financial Statements

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Local sources	\$ 30,192,640	\$ 4,033,488	\$ 12,792,365	\$ 47,018,493
State sources	107,341,392	-	594,986	107,936,378
Federal sources	11,896,598	-	2,082,701	13,979,299
Miscellaneous	-	124,080	337,573	461,653
TOTAL REVENUES	149,430,630	4,157,568	15,807,625	169,395,823
EXPENDITURES				
Current				
Regular instruction	86,594,538	-	-	86,594,538
Special education	29,948,274	-	-	29,948,274
Career and technical education	5,518,278	-	989,666	6,507,944
District wide services	8,064,155	-	-	8,064,155
School food services	-	-	6,046,463	6,046,463
Operations and maintenance	7,694,752	1,504,771	-	9,199,523
Transportation	4,454,051	-	-	4,454,051
Co-curricular activities	4,967,109	-	-	4,967,109
Debt Service				
Principal	377,924	127,610	5,354,206	5,859,740
Interest	154,289	24,339	2,692,571	2,871,199
Service charges	-	400	5,389	5,789
Capital outlay	6,471,932	15,307,536	77,546	21,857,014
TOTAL EXPENDITURES	154,245,302	16,964,656	15,165,841	186,375,799
Net change in fund balances	(4,814,672)	(12,807,088)	641,784	(16,979,976)
Fund balances - beginning of year, as originally stated	16,590,332	12,417,719	5,000,387	34,008,438
Prior period adjustment	532,698	582,909	(582,909)	532,698
Fund balances - beginning of year, restated	17,123,030	13,000,628	4,417,478	34,541,136
Fund balances - ending	\$ 12,308,358	\$ 193,540	\$ 5,059,262	\$ 17,561,160

See Notes to the Financial Statements

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds		\$ (16,979,976)
The change in net position reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets with a cost greater than \$5,000 is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.		
Current year capital outlay (over \$5,000)	21,857,014	
Current year depreciation expense	<u>(4,934,031)</u>	16,922,983
Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the cost of the asset sold.		
		(9,292)
Repayment of debt principal and capital lease payable is an expenditure in the governmental fund, but repayment reduces long-term liabilities in the Statement of Net Position.		
		5,859,740
Government funds report capital lease debt proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of capital lease debt as a liability.		
		(187,780)
Repayment of bond premium payable is not recognized in the governmental funds, but reduces interest expense in the Statement of Activities.		
		53,018
Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.		
Net increase in compensated absences	(96,245)	
Net decrease in interest payable	27,860	
Net increase in net pension liability	<u>(31,349,224)</u>	(31,417,609)
Changes in deferred inflows and outflows relating to net pension liability		
		30,612,744
Some revenues reported on the Statement of Activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of the net increase in taxes receivable.		
		182,951
Internal service funds are used by the school to charge the costs of health insurance to departments. The net revenue of activities of the internal service fund is reported with governmental activities.		
		<u>1,353,686</u>
Change in net position of governmental activities		<u>\$ 6,390,465</u>

See Notes to the Financial Statements

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2016

	<u>Internal Service Fund Insurance</u>
ASSETS	
Current assets	
Cash	<u>\$ 8,760,569</u>
LIABILITIES	
Current liabilities	
Incurred but not reported claims	1,136,000
Unearned health insurance premiums	<u>2,826,340</u>
Total current liabilities	<u>3,962,340</u>
NET POSITION	
Unrestricted	<u>\$ 4,798,229</u>

See Notes to the Financial Statements

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Internal Service Funds Insurance</u>
Operating revenues	
Contributions to self-insurance district	\$ 18,096,962
Contributions to self-insurance cobra	322,993
Rebates	214,549
Total operating revenues	<u>18,634,504</u>
Operating expenses	
Health insurance claims	<u>17,280,818</u>
Change in net position	<u>1,353,686</u>
Total net position - beginning of year, as originally stated	4,887,765
Prior period adjustment	<u>(1,443,222)</u>
Total net position - beginning of year, restated	<u>3,444,543</u>
Total net position - end of year	<u><u>\$ 4,798,229</u></u>

See Notes to the Financial Statements

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Internal Service Fund Insurance</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from district - current premiums	\$ 18,096,962
Received from COBRA premiums	322,993
Rebates received	214,549
Payments for health insurance claims	<u>(15,321,002)</u>
Net cash provided (used) by operating activities	<u>3,313,502</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Transfer of investments	<u>1,402,800</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,716,302
CASH AND CASH EQUIVALENTS - BEGINNING	<u>4,044,267</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 8,760,569</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 1,353,686
Effect on cash flows due to changes in changes in assets and liabilities:	
Incurred by not reported claims	44,000
Unearned health insurance premiums	<u>1,915,816</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 3,313,502</u></u>

See Notes to the Financial Statements

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS
JUNE 30, 2016

	<u>TLC</u>	<u>Student Activities</u>	<u>MREC</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 49,623	\$ 1,457,081	\$ 633,942	\$ 2,140,646
Intergovernmental receivables	-	1,890	395,984	397,874
	<u>\$ 49,623</u>	<u>\$ 1,458,971</u>	<u>\$ 1,029,926</u>	<u>\$ 2,538,520</u>
LIABILITIES				
Accounts, salaries and benefits payable	\$ 1,827	\$ 276,061	\$ 211,208	\$ 489,096
Due to consortium participants	47,796	-	818,718	866,514
Due to student activities groups	-	1,182,910	-	1,182,910
	<u>\$ 49,623</u>	<u>\$ 1,458,971</u>	<u>\$ 1,029,926</u>	<u>\$ 2,538,520</u>

See Notes to the Financial Statements

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

The Bismarck Public School District No. 1 (District) operates the public schools in the city of Bismarck, North Dakota. There are sixteen elementary schools, three middle schools, three senior high schools, an alternative high school, a career academy, technical center, and an early childhood center.

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

Based on these criteria, there are no component units to be included within the Bismarck Public School District No. 1 as a reporting entity.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements have been prepared 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.

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 (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide financial statements do not include fiduciary funds.

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 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.

Building fund – This fund accounts for the financial resources related to the capital outlays made by the District.

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

Special Revenue funds – These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service funds – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Proprietary Funds – The reporting focus of proprietary funds is on the determination of net income, financial position and changes in financial position (economic resources). These funds are used to account for activities which are similar to those found in the private sector. The funds are maintained on the accrual basis of accounting.

Internal Service – The reporting focus of internal service funds is on services provided by one fund of the District to another fund on a cost reimbursement basis. The District’s only internal service fund consists of the following:

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

Self-funded Health Insurance Fund – The fund accounts for the financial transactions related to the District's self-funded health insurance plan.

Fiduciary Funds – The reporting focus of fiduciary funds is on net position and changes in net position. 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 – The fund accounts for the financial transactions related to the District's student activity programs.

TLC – The Teacher Learning Center is managed by an independent board and is not under the control of the Bismarck School Board. The Bismarck School District serves as the fiscal agent for the TLC.

MREC – The Missouri River Education Cooperative is managed by an independent board and is not under the control of the Bismarck School Board. The Bismarck School District serves as the fiscal agent for the MREC.

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 and liabilities associated with the operation 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 the difference, 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. Fiduciary funds also use the economic resources measurement focus.

Basis of Accounting

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

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

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 internal service fund also uses the accrual basis of accounting. 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.

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.

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

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

Accounts Receivable

Accounts receivable consists mainly of amounts on open account from other School districts and organizations for goods and services furnished by the District. Management has deemed all receivables to be collectable; therefore no allowance for doubtful accounts has been set up.

Intergovernmental Receivable

Intergovernmental receivables consist of reimbursements due for expenses in the operation of various school programs and other credits from the State. These amounts consist of a mix of State and Federal dollars.

Due from County Treasurer

The amount due from county treasurer consists of the cash on hand for taxes collected but not remitted to the District at June 30.

Inventories

Inventories are valued using the weighted-average method and consist of supplies for the food service fund. The cost of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Reported inventories are equally offset by a nonspendable fund balance which indicates they do not constitute "available spendable resources" even though they are a component of net current assets.

Capital Assets

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

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

Buildings	20-50 Years
Furniture and equipment	5-12 Years
Vehicles and equipment	10-15 Years
Improvements	10-30 Years

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

Compensated Absences

Vested or accumulated vacation leave is reported in government-wide statements of net position. Compensation for unused vacation leave will be granted to all full-time administrators, professional non-certified staff, and hourly support staff upon termination with the District. Twelve month, full-time employees may carry forward unused vacation not to exceed 20 days. Eleven month administrators may carry up to 19 days of vacation leave forward. Teachers and non-certified staff working less than 12 months will be able to carry forward five personal days.

Compensation for unused sick leave will be granted to all administrators, teachers, non-certified professional staff, and hourly support staff if they have 10 or more years of service upon termination from the District. The severance payment is based on \$30.00 per day for administrators, \$25.00 per day for teachers and non-certified professional staff, and \$20.00 per day for hourly support staff for each day of unused sick leave not to exceed \$3,000.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are amortized over the life of the bond. Issuance costs are reported as expenditures.

In fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Insurance costs are reported as debt service expenditures.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of the remaining un-depreciated cost of the asset less the outstanding debt associated with the purchase or construction of the related asset.

Net position is reported as restricted when external creditors, grantors, or other governmental organizations imposed specific restrictions on the District. External restrictions may be imposed through state or local laws, and grant or contract provisions. Restricted net position includes: amounts restricted for debt service, food service, capital projects, and career and technical education.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item reported on the statement of net position as deferred pension inflows, which represents the actuarial differences within the NDPERS and TFFR pension plans. See notes 12 and 13 for further details.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

In addition to liabilities, the statement of financial 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 two types of items which qualify for reporting in this category. One of the items, unavailable revenue – delinquent taxes, is reported only in the governmental funds balance sheet. This amount, which is from delinquent property taxes, is deferred and recognized as an inflow of resources in the period that the amount become available. The other item is reported on the statement of net position as deferred pension outflows, which represents the actuarial differences within the NDPERS and TFFR pension plans as well as amounts paid to the plan after the measurement date. See notes 12 and 13 for further details.

Fund Balance Classifications

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

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

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

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

Assigned – This classification reflects the amounts constrained by the District's "intent" to be used for specific purposes, but are neither restricted nor committed. The school board and superintendent have the authority to assign amounts to be used for specific purposes.

Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

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

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

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

The school board has set a General Fund minimum fund balance target at 10% of expenditures and recurring transfers.

Interfund Transactions

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

All other interfund transactions, except reimbursements, are reported as transfers. In the government-wide financial statements, interfund transactions have been eliminated.

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.

Delinquent Taxes

Receivables, such as taxes receivable, may be measurable but not available. Available means collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported delinquent taxes are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

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.

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.

As discussed in note 11, the District has established a self-funded health insurance plan. Because of the inherent uncertainties associated with estimating the accrued liability for claims, it is at least reasonably possible that the estimate used will change within the near term.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

Revenue Recognition - Property Taxes

As of June 30, 2016, taxes receivable consists of current and delinquent uncollected taxes for the past five years.

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

Revenue Recognition - Proprietary Fund

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges to other funds for health insurance premiums. Operating expenses for the internal service fund include the cost of claims and related administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expense.

NOTE 3 DEPOSITS AND INVESTMENTS

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

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

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

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

Custodial Credit Risk

At year ended June 30, 2016, the District's carrying amount of deposits was as follows:

Governmental funds	\$ 18,266,791
Internal service fund	8,760,569
Agency funds	<u>2,140,646</u>
 Total deposits	 <u><u>\$ 29,168,006</u></u>

The bank balance of these deposits as of June 30, 2016 was \$29,360,979. The difference results from checks outstanding or deposits not yet processed. Of the bank balances, \$1,520,212 is covered by the FDIC (Federal Deposit Insurance Corporation) and \$27,840,767 is collateralized with securities held by the pledging financial institutions' agent in the District's name. The value of the securities pledged was \$142,200 less than 110% of the uninsured balance as required by state law.

Credit Risk and Interest Rate Risk

The school may invest idle funds as authorized in North Dakota Statutes, as follows:

- a. Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.
- b. Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- c. Certificates of Deposit fully insured by the federal deposit insurance corporation.
- d. Obligations of the state.
- e. Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in two hundred seventy days or less

The investments of the District consist of commercial paper and an investment in the MBBM investment pool. The MBBM investment pool was undertaken through a joint powers agreement with the City of Bismarck, City of Mandan, Morton County, Burleigh County, Bismarck Park District, Mandan Park District, and Mandan Public School District. The pool invests in securities authorized by State Statutes. At June 30, 2016 the school's portion of MBBM had a fair value of \$8,456,679.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

At June 30, 2016, the following table shows the investments by investment type and maturity.

<u>Investment Type</u>	<u>Total Fair Value</u>	<u>Less Than 1 Year</u>	<u>1-6 Years</u>
US treasury bonds	\$ 5,278,990	\$ 246,739	\$ 5,032,251
Commercial paper	4,507,474	4,507,474	-
FNMA	<u>3,168,991</u>	<u>432,375</u>	<u>2,736,615</u>
Total debt investments	12,955,455	<u>\$ 5,186,588</u>	<u>\$ 7,768,866</u>
Investments not subject to categorization:			
<u>Money market</u>	<u>8,698</u>		
Total investments	<u>\$ 12,964,153</u>		

Credit Risk

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. The District does not have an investment policy that specifically addresses credit risk. The following table represents the District's ratings as of June 30, 2016.

<u>S&P Credit Rating</u>	<u>Total Fair Value</u>	<u>Government Bonds</u>	<u>Commercial Paper</u>
AAA	\$ 3,168,991	\$ 3,168,991	\$ -
A-1+	<u>4,507,474</u>	<u>-</u>	<u>4,507,474</u>
Total credit risk - debt securities	7,676,465	<u>\$ 3,168,991</u>	<u>\$ 4,507,474</u>
Investments not subject to categorization:			
<u>Money market</u>	<u>8,698</u>		
<u>Obligations of the US Government</u>	<u>5,278,990</u>		
Total investments	<u>\$ 12,964,153</u>		

NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Level 1: Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

Level 2: Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The following table below presents the balances of assets, deferred outflow of resources, and deferred inflow of resources measured at fair value on a recurring basis at June 30, 2016.

	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
ASSETS				
FNMA	\$ 3,168,991	\$ -	\$ 3,168,991	\$ -
Money Market	8,698	8,698	-	-
Commercial paper	4,507,474	4,507,474	-	-
US treasury bonds	5,278,990	-	5,278,990	-
Total	<u>\$ 12,964,153</u>	<u>\$ 4,516,172</u>	<u>\$ 8,447,981</u>	<u>\$ -</u>

NOTE 5 DUE TO/FROM OTHER FUNDS

The due to and from other funds as of June 30, 2016 represent amounts recorded as revenue by the building fund and debt service fund but received by the general fund during the year. The amounts are as follows:

Fund	Due From	Due To
General Fund	\$ -	\$ 386,882
Building Fund	112,237	-
Non-major governmental funds	<u>274,645</u>	<u>-</u>
	<u>\$ 386,882</u>	<u>\$ 386,882</u>

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 6 CAPITAL ASSETS

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

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated				
Land	\$ 10,393,002	\$ -	\$ -	\$ 10,393,002
Construction in progress	53,017,432	8,375,328	53,538,118	7,854,642
Total capital assets, not depreciated	<u>63,410,434</u>	<u>8,375,328</u>	<u>53,538,118</u>	<u>18,247,644</u>
Capital assets, being depreciated				
Buildings	161,674,272	64,559,776	-	226,234,048
Improvements other than buildings	7,832,298	1,524,977	-	9,357,275
Furniture and equipment	2,598,059	449,338	103,750	2,943,647
Vehicles and equipment	3,108,519	485,712	14,792	3,579,439
Total capital assets, being depreciated	<u>175,213,148</u>	<u>67,019,803</u>	<u>118,542</u>	<u>242,114,409</u>
Less accumulated depreciation for				
Buildings	50,371,549	4,161,085	-	54,532,634
Improvements other than buildings	3,079,294	384,883	-	3,464,177
Furniture and equipment	1,810,237	173,463	103,750	1,879,950
Vehicles and equipment	1,557,883	214,600	5,500	1,766,983
Total accumulated depreciation	<u>56,818,963</u>	<u>4,934,031</u>	<u>109,250</u>	<u>61,643,744</u>
Total capital assets being depreciated, net	<u>118,394,185</u>	<u>62,085,772</u>	<u>9,292</u>	<u>180,470,665</u>
Governmental activities capital assets, net	<u>\$ 181,804,619</u>	<u>\$ 70,461,100</u>	<u>\$ 53,547,410</u>	<u>\$ 198,718,309</u>

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

Governmental activities	
Elementary Instruction Depreciation	\$ 1,457,303
Middle School Depreciation	782,835
Senior High Depreciation	1,580,793
Special Education Depreciation	48,458
Vocational Depreciation	291,276
District Wide Services Depreciation	72,766
Food Service Depreciation	35,758
Operations & Maintenance Depreciation	528,563
Transportation Depreciation	111,821
Student Activities Depreciation	24,458
Total depreciation expense - governmental activities	<u>\$ 4,934,031</u>

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

As of June 30, 2016, equipment capitalized under a capital lease and the accumulated depreciation is as follows:

Capitalized leased equipment	\$ 173,442
Less accumulated depreciation	(3,671)
	\$ 169,771

NOTE 7 ACCOUNTS, SALARIES AND BENEFITS PAYABLE

Accounts, salaries and benefits payable consists of amounts owed for goods and services received prior to June 30, 2016 and chargeable to the appropriations for the year then ended, but paid subsequent to that date. A detail of accounts, salaries and benefits payable is as follows as of June 30, 2016:

<u>General Fund:</u>	
Accounts payable	\$ 13,173,620
Salaries payable	2,713,758
Benefits payable	280,622
	16,168,000
<u>Building Fund:</u>	
Accounts payable	2,969,741
<u>School Food Services Fund:</u>	
Accounts payable	252,508
Salaries payable	7,811
Benefits payable	3,730
	264,049
<u>MRACTC:</u>	
Accounts payable	43,525
Salaries payable	12,635
Benefits payable	545
	56,705
<u>Carley Estate:</u>	
Accounts payable	43,181
Total accounts, salaries and benefits payable	\$ 19,501,676

NOTE 8 OPERATING LEASES

The District entered into operating leases for office equipment, with monthly payments totaling \$6,520 per month. The leases end at various periods until 2019. During the year the District paid \$78,487 on these leases. The required future annual lease payments are as follows:

2017	\$ 78,235
2018	46,388
2019	45,504

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 9 LONG-TERM DEBT

Changes in Long-Term Liabilities

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

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016	Due Within One Year
Compensated absences *	\$ 3,246,605	\$ 96,245	\$ -	\$ 3,342,850	\$ 340,000
Capital lease payable	37,334	187,780	(43,870)	181,244	38,093
Note payable	6,879,531	-	(334,054)	6,545,477	359,666
General obligation bonds	88,035,580	-	(5,481,816)	82,553,764	5,624,527
Bond premium	948,397	-	(53,018)	895,379	53,015
Total	\$ 99,147,447	\$ 284,025	\$ (5,912,758)	\$ 93,518,714	\$ 6,415,301

* The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reduction. The general fund is primarily used to liquidate compensated absences.

Debt Outstanding

The obligations under general obligation bonds, notes payable and capital leases are as follows:

<u>General Obligation Bonds</u>	<u>Outstanding 6/30/16</u>
\$687,000 General Obligation Building Fund Levy Bond of 2003, due in annual installments of \$30,396 to \$45,204 through June 1, 2023, interest at 3.1%. Payments are to be made from the Building Fund.	\$ 289,269
\$1,650,000 General Obligation Building Fund Bonds of 2001, due in annual installments of \$78,789 to \$102,824 through June 1, 2021, interest at 2.45%. Payments are to be made from the Building Fund.	490,113
\$2,500,000 General Obligation Bonds of 1997, Series B, due in annual installments of \$136,497 to \$162,605 through June 1, 2017, interest at 2.96%. Payments are to be made from the Debt Service Fund.	162,605
\$5,570,000 General Obligation Refunding Bonds of 2009, due in annual installments of \$290,000 to \$775,000 through May 1, 2019, interest at 0.85% to 3.4%. Payments are to be made from the Debt Service Fund.	1,335,000
\$10,000,000 General Obligation Building Fund Bonds of 2012, due in annual installments of \$460,000 to \$640,000 through May 1, 2032, interest at 1.0% to 2.25%. Payments are to be made from the Debt Service Fund.	8,615,000

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

	<u>Outstanding 6/30/16</u>
<p>\$61,500,000 General Obligation School Building Bonds of 2013, due in annual installments of \$1,455,000 to \$4,280,000 through May 1, 2033, interest at 1.5% to 4.125%. Payments are to be made from the Debt Service Fund. Includes premium of \$890,775.</p>	\$ 55,890,776
<p>\$15,000,000 General Obligation School Building Bonds of 2014, due in annual installments of \$591,951 to \$932,387 through June 1, 2034, interest at 2.42%. Payments are to be made from the Debt Service Fund.</p>	13,801,774
<p>\$3,720,000 General Obligation Refunding Bonds of 2015, due in annual installments of \$860,000 to \$1,010,000 through May 1, 2019, interest at 0.65% to 1.1%. Payments are to be made from the Debt Service Fund. Includes premium of \$4,606.</p>	<u>2,864,606</u>
<p style="padding-left: 40px;">Total General Obligation Bonds Payable</p>	<u><u>\$ 83,449,143</u></u>
<u>Note Payable</u>	
<p>\$7,216,443 Equipment / Lease Purchase Agreement of 2013, due in annual installments of \$144,517 to \$576,095 through June 1, 2028, interest at 2.21%. Payments are to be made from the General Fund. The entire balance is not associated with fixed assets.</p>	<u><u>\$ 6,545,477</u></u>
<u>Capital Lease Payable</u>	
<p>\$154,055 lease dated June 6, 2016 for the purchase of a copy machine. Due in monthly principal and interest installments of \$3,000 at 5.70% until June 2021. Payments are to be made from the General Fund.</p>	\$ 156,313
<p>\$19,757 lease dated October 19, 2015 for the purchase of a copy machine. Due in monthly principal and interest installments of \$614 at 5.70% until October 2018. Payments are to be made from the General Fund.</p>	16,064
<p>\$10,906 lease dated October 19, 2015 for the purchase of a copy machine. Due in monthly principal and interest installments of \$339 at 5.70% until October 2018. Payments are to be made from the General Fund.</p>	<u>8,867</u>
<p style="padding-left: 40px;">Total Capital Lease Payable</p>	<u><u>\$ 181,244</u></u>
<p style="padding-left: 40px;">Total</p>	<u><u>\$ 90,175,864</u></u>

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

Debt Service Requirements

Annual requirements on long term debt at June 30, 2016 are as follows:

Year Ending June 30	General Obligation Bonds		Note Payable	
	Principal	Interest	Principal	Interest
2017	\$ 5,624,527	\$ 2,581,944	\$ 359,666	\$ 144,655
2018	5,055,402	2,447,917	386,526	136,706
2019	5,209,338	2,328,529	414,690	128,164
2020	3,993,741	2,204,056	444,211	119,000
2021	4,088,623	2,097,838	475,150	109,182
2022-2026	21,546,590	8,715,407	2,893,693	373,555
2027-2031	25,278,954	4,838,216	1,571,541	57,237
2032-2036	11,756,589	664,963	-	-
Premium	895,379	(895,379)	-	-
Totals	<u>\$ 83,449,143</u>	<u>\$ 24,983,491</u>	<u>\$ 6,545,477</u>	<u>\$ 1,068,499</u>

Year Ending June 30	Capital Lease Payable		Total	
	Principal	Interest	Principal	Interest
2017	\$ 38,093	\$ 9,347	\$ 6,022,286	\$ 2,735,946
2018	40,322	7,117	5,482,250	2,591,740
2019	34,929	4,886	5,658,957	2,461,579
2020	32,985	3,017	4,470,937	2,326,073
2021	34,915	1,087	4,598,688	2,208,107
2022-2026	-	-	24,440,283	9,088,962
2027-2031	-	-	26,850,495	4,895,453
2032-2036	-	-	11,756,589	664,963
Premium	-	-	895,379	(895,379)
Totals	<u>\$ 181,244</u>	<u>\$ 25,454</u>	<u>\$ 90,175,864</u>	<u>\$ 26,077,444</u>

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 10 FUND BALANCES

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Building Fund</u>	<u>Total</u>
Non-spendable:					
Inventories	\$ -	\$ 178,138	\$ -	\$ -	\$ 178,138
Restricted:					
Debt Service	-	-	4,201,996	-	4,201,996
Capital Projects	-	223,399	-	193,540	416,939
Food Service	-	181,375	-	-	181,375
Career and Technical Education	-	274,354	-	-	274,354
Unassigned:					
General Fund	12,308,358	-	-	-	12,308,358
	<u>\$ 12,308,358</u>	<u>\$ 857,266</u>	<u>\$ 4,201,996</u>	<u>\$ 193,540</u>	<u>\$ 17,561,160</u>

Restricted Net Position Reconciliation:

	<u>Restricted Net Position</u>
Debt Service Fund	\$ 4,201,996
Building Fund	193,540
Food Service	181,375
Career and Technical Education	274,354
Carley Estate	223,399
	<u>\$ 5,074,664</u>

NOTE 11 RISK MANAGEMENT

The Bismarck Public School District No. 1 is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The Bismarck Public School District pays an annual premium to NDRIF for its general liability and automobile insurance coverage. The coverage by NDRIF is limited to losses on two million dollars per occurrence for general liability and automobile. The district insures machinery and equipment with the Cincinnati Insurance Company. Coverage is limited to \$40,000,000.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

The Bismarck Public School 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 two million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the District with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The state Bonding Fund does not currently charge any premium for this coverage.

The Bismarck Public School District No. 1 has workers compensation with the North Dakota Workforce Safety and Insurance.

The District has retained risk for employee health and dental insurance up to a maximum of \$150,000 per year per individual. They have purchased a stop loss policy for amounts in excess of 120% of expected claims.

Claims, which have been incurred at year-end but not reported, have been recorded as a claim reserve payable in the amount of \$1,136,000 for 2016. Blue Cross Blue Shield, the plan administrator, has calculated this reserve requirement. Changes in the claim reserve payable during the year were as follows:

Balance, July 1, 2015	\$ 1,092,000
Incurred claims including incurred but not reported	17,280,818
Less: claims paid	<u>(17,236,818)</u>
Balance, June 30, 2016	<u>\$ 1,136,000</u>

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 12 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

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

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

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

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

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

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

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

Death and Disability Benefits

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

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

Member and Employer Contributions

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

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

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 \$141,034,081 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 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 June 30, 2015, the Employer's proportion was 10.78362 percent.

For the year ended June 30, 2016, the Employer recognized pension expense of \$9,590,235. At June 30, 2016, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 924,191	\$ -
Changes of assumptions	15,835,707	-
Net difference between projected and actual earnings on pension plan investments	-	(1,590,365)
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,406,587	-
Employer contributions subsequent to the measurement date	<u>8,825,794</u>	<u>-</u>
Total	<u>\$ 26,992,279</u>	<u>\$ (1,590,365)</u>

\$8,825,794 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

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

Year ended June 30:		
2017	\$	1,851,888
2018		1,851,888
2019		1,851,888
2020		5,060,960
2021		3,051,747
Thereafter		2,907,749

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 are 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 are 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.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	57%	7.50%
Global Fixed Income	22%	1.30%
Global Real Assets	20%	5.40%
Cash Equivalents	1%	0.00%

Discount Rate

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Employer's proportionate share of the net pension liability	\$186,383,207	\$141,034,081	\$103,213,867

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report. Requests to obtain or review this report should be addressed to the North Dakota Retirement and Investment Office, 1930 Burnt Boat Dr, Bismarck, ND 58503.

NOTE 13 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. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The 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.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

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

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

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

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

At June 30, 2016, the Employer reported a liability of \$16,080,127 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 Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2015, the Employer's proportion was 2.364784 percent.

For the year ended June 30, 2016, the Employer recognized pension expense of \$1,674,495. At June 30, 2016, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 466,505	\$ -
Changes of assumptions	-	(1,432,664)
Net difference between projected and actual earnings on pension plan investments	-	(339,449)
Changes in proportion and differences between employer contributions and proportionate share of contributions	730,305	(24,897)
Employer contributions subsequent to the measurement date	<u>1,703,205</u>	<u>-</u>
Total	<u>\$ 2,900,015</u>	<u>\$ (1,797,010)</u>

\$1,703,205 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

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

Year ended June 30:

2017	\$	(293,732)
2018		(293,732)
2019		(293,732)
2020		407,698
2021		(126,702)

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 with ages 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 Retiree Mortality Table set back one year for males (no set back for females) multiplied by 125%.

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

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Fixed Income	5%	0.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

Discount Rate

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

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

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

	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
Employer's proportionate share of the net pension liability	\$24,658,071	\$16,080,127	\$9,061,819

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. Requests to obtain or review this report should be addressed to the Executive Director - NDPERS, P.O. Box 1657, Bismarck, North Dakota 58502-1657.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 14 CONTINGENCIES

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with items and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. The District's management believes it has complied with all applicable grant provisions. In the opinion of management, any possible disallowed claim would not have a material effect on the overall financial position of the District as of June 30, 2016.

NOTE 15 NONMONETARY TRANSACTIONS

The District receives food commodities from the federal government to subsidize its food service and twenty-first century learning programs. The market value of commodities received for the year ended June 30, 2016 was \$197,809.

NOTE 16 COMMITMENTS

The District entered into contracts to build an athletic complex. The total cost of these contracts is \$11,671,989. As of June 30, 2016, the District has paid \$7,562,898 on these contracts and is included in construction in progress.

The District entered into contracts to build an addition to Lincoln Elementary School. The total cost of these contracts is \$1,305,627. As of June 30, 2016, the District has paid \$723,902 on these contracts and is included in construction in progress.

NOTE 17 ISSUED BUT NON-EFFECTIVE PRONOUNCEMENTS

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.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

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 and 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 Organization 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.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

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 District's financial statements.

NOTE 18 PRIOR PERIOD ADJUSTMENT

The District has posted a prior period adjustment to its June 30, 2015 financial statements to properly record due to and due from's between the Self Funded Health Insurance Fund and General Fund. The net effect of this prior period adjustment was a decrease in due from other funds of \$1,443,222 in the Self Funded Health Insurance Fund, and a decrease in due to other funds in the General Fund of \$532,698. The adjustments resulted in a net decrease of \$910,524 to net position on the Statement of Activities.

A prior period adjustment was also made in the Building Fund and Food Service Fund for \$582,909 to move expenses incurred in the prior year to the correct fund. The result of the adjustment was a decrease in opening fund balance in the Building Fund of \$582,909 and an increase in opening fund balance in the Food Service Fund of \$582,909. The adjustments resulted in a no net change in net position on the Statement of Activities.

NOTE 19 SUBSEQUENT EVENTS

Subsequent events noted above were evaluated through November 29, 2016, which is the date these financial statements were available to be issued

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Budget</u>
REVENUES				
Local sources	\$ 31,607,613	\$ 31,607,613	\$ 30,192,640	\$ (1,414,973)
State sources	107,023,345	107,023,345	107,341,392	318,047
Federal sources	<u>13,336,485</u>	<u>13,336,485</u>	<u>11,896,598</u>	<u>(1,439,887)</u>
TOTAL REVENUES	<u>151,967,443</u>	<u>151,967,443</u>	<u>149,430,630</u>	<u>(2,536,813)</u>
EXPENDITURES				
Current				
Regular instruction	88,388,797	88,388,797	86,594,538	1,794,259
Special education	29,925,265	29,925,265	29,948,274	(23,009)
Career and technical education	5,295,605	5,295,605	5,518,278	(222,673)
District wide services	9,715,632	9,715,632	8,064,155	1,651,477
Operations and maintenance	11,367,449	11,367,449	7,694,752	3,672,697
Transportation	4,612,445	4,612,445	4,454,051	158,394
Co-curricular activities	4,697,698	4,697,698	4,967,109	(269,411)
Debt Service:				
Principal	334,054	334,054	377,924	(43,870)
Interest	152,038	152,038	154,289	(2,251)
Capital outlay	<u>2,279,878</u>	<u>2,279,878</u>	<u>6,471,932</u>	<u>(4,192,054)</u>
TOTAL EXPENDITURES	<u>156,768,861</u>	<u>156,768,861</u>	<u>154,245,302</u>	<u>2,523,559</u>
Net change in fund balances	<u>\$ (4,801,418)</u>	<u>\$ (4,801,418)</u>	(4,814,672)	<u>\$ (13,254)</u>
Fund balances - beginning, restated			<u>17,123,030</u>	
Fund balances - ending			<u>\$ 12,308,358</u>	

See Notes to Required Supplementary Information

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF EMPLOYER'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST 10 FISCAL YEARS*

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered- employee payroll	Employer's 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	10.783616%	\$ 141,034,081	\$ 66,330,545	212.62%	62.10%
2015	10.642008%	111,509,377	61,729,312	180.64%	66.60%

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered- employee payroll	Employer's 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	2.364784%	\$ 16,080,127	\$ 21,067,356	76.33%	77.15%
2015	2.245963%	14,255,607	18,919,516	75.35%	77.70%

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

See Notes to Required Supplementary Information

**BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF EMPLOYER CONTRIBUTIONS
LAST 10 FISCAL YEARS***

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

	<u>Statutorily required contribution</u>	<u>Contributions in relation to the statutorily required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Employer's covered- employee payroll</u>	<u>Contributions as a percentage of covered-employee payroll</u>
2016	\$ 8,825,794	\$ (8,825,794)	\$ -	69,221,921	12.75%
2015	8,456,738	(8,456,738)	-	66,330,545	12.75%

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

	<u>Statutorily required contribution</u>	<u>Contributions in relation to the statutorily required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Employer's covered- employee payroll</u>	<u>Contributions as a percentage of covered-employee payroll</u>
2016	\$ 1,703,205	\$ (1,703,205)	\$ -	23,929,842	7.12%
2015	1,600,235	(1,570,339)	29,896	21,067,356	7.60%

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

See Notes to Required Supplementary Information

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

The District's board adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States for the general fund.

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

- The annual budget must be prepared and District taxes must be levied on or before the 15th day of August of each year.
- The taxes levied must be certified to the county auditor by October 10th.
- The operating budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the business and operations manager at the revenue and expenditure function/object level.
- The current budget, except property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.
- All appropriations lapse at year-end.

**NOTE 2 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
CHANGES OF ASSUMPTIONS**

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

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

**NOTE 3 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
CHANGES OF ASSUMPTIONS**

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.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
COMBINING BALANCE SHEET - TOTAL NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>Special Revenue Funds</u>			Debt Service Funds	Total Nonmajor Governmental Funds
	<u>Food Service</u>	<u>MRACTC</u>	<u>Carley Estate</u>		
ASSETS					
Cash	\$ 244,546	\$ 140,441	\$ 266,580	\$ 3,518,962	\$ 4,170,529
Investments	200,000	-	-	-	200,000
Taxes receivable	-	-	-	242,500	242,500
Intergovernmental receivable	878	190,618	-	-	191,496
Due from county treasurer	-	-	-	408,389	408,389
Due from other funds	-	-	-	274,645	274,645
Inventory	178,138	-	-	-	178,138
TOTAL ASSETS	<u>\$ 623,562</u>	<u>\$ 331,059</u>	<u>\$ 266,580</u>	<u>\$ 4,444,496</u>	<u>\$ 5,665,697</u>
LIABILITIES					
Accounts, salaries and benefits payable	\$ 264,049	\$ 56,705	\$ 43,181	\$ -	\$ 363,935
DEFERRED INFLOWS OF RESOURCES					
Delinquent taxes	-	-	-	242,500	242,500
FUND BALANCES					
Nonspendable	178,138	-	-	-	178,138
Restricted	181,375	274,354	223,399	4,201,996	4,881,124
TOTAL FUND BALANCES	<u>359,513</u>	<u>274,354</u>	<u>223,399</u>	<u>4,201,996</u>	<u>5,059,262</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 623,562</u>	<u>\$ 331,059</u>	<u>\$ 266,580</u>	<u>\$ 4,444,496</u>	<u>\$ 5,665,697</u>

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
COMBINING BALANCE SHEET - NON-MAJOR DEBT SERVICE FUNDS
JUNE 30, 2016

	G.O. Bonds of 1997	G.O. School Ref. Bonds of 2005	G.O. Ref. Bonds of 2010	G.O. Bonds of 2012	G.O. Bonds of 2013	G.O. Bonds of 2014	Total Debt Service Funds
ASSETS							
Cash	\$ 179,105	\$ 330,390	\$ 1,059,498	\$ 294,782	\$ 1,592,575	\$ 62,612	\$ 3,518,962
Taxes receivable	4,996	28,828	35,024	18,475	127,235	27,942	242,500
Due from county treasurer	8,466	48,510	47,589	30,864	225,127	47,833	408,389
Due from other funds	5,713	32,629	26,089	20,654	158,030	31,530	274,645
TOTAL ASSETS	<u>\$ 198,280</u>	<u>\$ 440,357</u>	<u>\$ 1,168,200</u>	<u>\$ 364,775</u>	<u>\$ 2,102,967</u>	<u>\$ 169,917</u>	<u>\$ 4,444,496</u>
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenues	\$ 4,996	\$ 28,828	\$ 35,024	\$ 18,475	\$ 127,235	\$ 27,942	\$ 242,500
FUND BALANCES							
Restricted for debt service	193,284	411,529	1,133,176	346,300	1,975,732	141,975	4,201,996
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 198,280</u>	<u>\$ 440,357</u>	<u>\$ 1,168,200</u>	<u>\$ 364,775</u>	<u>\$ 2,102,967</u>	<u>\$ 169,917</u>	<u>\$ 4,444,496</u>

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - TOTAL NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Special Revenue Funds			Debt Service Funds	Total Nonmajor Governmental Funds
	Food Service	MRACTC	Carley Estate		
REVENUES					
Local sources	\$ 4,024,223	\$ -	\$ -	\$ 8,768,142	\$ 12,792,365
State sources	80,644	514,342	-	-	594,986
Federal sources	2,082,701	-	-	-	2,082,701
Miscellaneous	-	337,573	-	-	337,573
TOTAL REVENUES	6,187,568	851,915	-	8,768,142	15,807,625
EXPENDITURES					
Current					
Career and technical education	-	923,540	66,126	-	989,666
School food services	6,046,463	-	-	-	6,046,463
Debt Service					
Principal	-	-	-	5,354,206	5,354,206
Interest	-	-	-	2,692,571	2,692,571
Service charges	-	-	-	5,389	5,389
Capital Outlay	-	6,500	71,046	-	77,546
TOTAL EXPENDITURES	6,046,463	930,040	137,172	8,052,166	15,165,841
Net change in fund balances	141,105	(78,125)	(137,172)	715,976	641,784
Fund balances - beginning of year, as originally stated	801,317	352,479	360,571	3,486,020	5,000,387
Prior period adjustment	(582,909)	-	-	-	(582,909)
Fund balances - beginning of year, restated	218,408	352,479	360,571	3,486,020	4,417,478
Fund balances - ending	\$ 359,513	\$ 274,354	\$ 223,399	\$ 4,201,996	\$ 5,059,262

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	G.O. Bonds of 1997	G.O. School Ref. Bonds of 2005	G.O. Ref. Bonds of 2010	G.O. Bonds of 2012	G.O. Bonds of 2013	G.O. Bonds of 2014	Total Nonmajor Debt Service Funds
REVENUES							
Local Sources	\$ 181,845	\$ 1,042,478	\$ 941,482	\$ 658,885	\$ 4,909,034	\$ 1,034,418	\$ 8,768,142
EXPENDITURES							
Debt Service							
Principal	157,931	860,000	730,000	465,000	2,535,000	606,275	5,354,206
Interest	9,488	37,451	61,960	144,147	2,090,850	348,675	2,692,571
Service charges	200	1,231	1,183	1,323	1,252	200	5,389
Total expenditures	<u>167,619</u>	<u>898,682</u>	<u>793,143</u>	<u>610,470</u>	<u>4,627,102</u>	<u>955,150</u>	<u>8,052,166</u>
NET CHANGE IN FUND BALANCES	<u>14,226</u>	<u>143,796</u>	<u>148,339</u>	<u>48,415</u>	<u>281,932</u>	<u>79,268</u>	<u>715,976</u>
FUND BALANCE - BEGINNING	<u>179,058</u>	<u>267,733</u>	<u>984,837</u>	<u>297,885</u>	<u>1,693,800</u>	<u>62,707</u>	<u>3,486,020</u>
FUND BALANCE - ENDING	<u><u>\$ 193,284</u></u>	<u><u>\$ 411,529</u></u>	<u><u>\$ 1,133,176</u></u>	<u><u>\$ 346,300</u></u>	<u><u>\$ 1,975,732</u></u>	<u><u>\$ 141,975</u></u>	<u><u>\$ 4,201,996</u></u>

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF INTERIOR			
Passed through Standing Rock Sioux Tribe: Indian Education - Assistance to Schools	15.130		\$ <u>31,685</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through North Dakota Department of Public Instruction:			
School Breakfast Program	10.553	1006	253,028
National School Lunch Program	10.555	1006	1,592,200
National School Lunch Program - commodities	10.555	1006	188,809
Summer Food Service Program for Children	10.559	1008	39,664
Summer Food Service Program for Children - commodities	10.559	1008	<u>9,000</u>
Child Nutrition Cluster			2,082,701
Child and Adult Care Food Program	10.558	1007	92,594
Team Nutrition Grants	10.574	1011 & 1013	643
Fresh Fruit and Vegetable Program	10.582	1009	<u>91,762</u>
Total U.S. Department of Agriculture			<u>2,267,700</u>
U.S. DEPARTMENT OF LABOR			
Incentive Grants - WIA Section 503	17.267		<u>20,000</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Head Start	93.600		<u>1,844,306</u>
Total U.S. Department of Health and Human Services			<u>1,844,306</u>
U.S. DEPARTMENT OF EDUCATION			
Indian Education - Grants to Local Education Associations	84.060		214,529
English Language Acquisition Grants	84.365		455,535 A
Passed through the State Board of Career and Technical Education:			
Career and Technical Education - Basic Grants to States (Perkins IV)	84.048	2038	222,334

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF EDUCATION (CONTINUED)			
Passed through North Dakota Department of Public Instruction:			
English Language Acquisition Grants	84.365	1043	\$ 22,699 A
Adult Education	84.002	1048	121,473
Title I - Grants to LEAs	84.010	1019	2,692,125
Title I - Neglected and Delinquent Children	84.013	1018 & 1019	124,164
Education for Homeless Children and Youth	84.196	1022	33,000
IDEA, Part B Special Education	84.027	1024	3,582,166
IDEA, Part B Special Education - Preschool Special Education Cluster (IDEA)	84.173	1026	<u>50,732</u> 3,632,898
Twenty-First Century Community Learning Centers	84.287	1066	736,695
State Personnel Development	84.323	1028	30,842
Improving Teacher Quality State Grants	84.367	1046	704,719
School Improvement Grants	84.377		105,894
Title VI - Grants for Assessment & Related Activities	84.396A	1047	25,000
Passed through North Dakota Department of Health and Human Services:			
Special Education - Grants for Infants and Families with Disabilities	84.181		<u>2,311,164</u>
Early Intervention Services (IDEA) Cluster			2,311,164
Total U.S. Department of Education			<u>11,433,071</u>
Total expenditures of federal awards			<u>\$ 15,596,762</u>
Sum of A, CFDA #84.365 English Language Acquisition Grants \$478,234			

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "schedule") includes the federal award activity of Bismarck Public School District No. 1 under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The amounts reported on the schedule have been reconciled to and are in agreement with amounts recorded in the accounting records from which the financial statements have been reported.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the applicable cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Governments* or in Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award*, wherein certain types of expenditures are not allowable or limited as to reimbursement. Bismarck Public School District No. 1 has not elected to use the 10-percent de minimis cost rate as allowed under the Uniform Guidance.

NOTE 3 RECONCILIATION TO FINANCIAL STATEMENTS

The schedule of expenditures of federal awards includes \$1,236,753 of federal funds expended and related federal revenue that is recorded in the fiduciary fund – MREC and \$41,472 of federal revenues and expenditures in the fiduciary fund - TLC. The schedule of expenditures of federal awards also includes \$339,238 of in-kind expenditures that are not included on the financial statements as federal revenue. These amounts, combined with federal revenues and expenditures in the general fund of \$11,896,598 and federal revenues and expenditures in the food service fund of \$2,082,701 equals total federal revenue and expenditures of \$15,596,762.



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
GOVERNMENTAL AUDITING STANDARDS**

To the School Board
Bismarck Public School District No. 1
Bismarck, North Dakota

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bismarck Public School District No. 1 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Bismarck Public School District No. 1's basic financial statements and have issued our report thereon dated November 29, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the 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 were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified item 2016-001 as a deficiency in internal control that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bismarck Public School District No. 1'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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2016-002.

District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

November 29, 2016



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the School Board
Bismarck Public School District No. 1
Bismarck, North Dakota

Report on Compliance for Each Major Federal Programs

We have audited Bismarck Public School District No. 1's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Bismarck Public School District No. 1's major federal programs for the year ended June 30, 2016. Bismarck Public School District No. 1's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Bismarck Public School District No. 1's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bismarck Public School District No. 1's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Bismarck Public School District No. 1's compliance.

Opinion on Each Major Federal Program

In our opinion, Bismarck Public School District No. 1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Bismarck Public School District No. 1 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Bismarck Public School District No. 1's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Bismarck Public School District No. 1's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

November 29, 2016

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	<u> x </u> yes	<u> </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> x </u> none reported
 Noncompliance material to financial statements noted?	 <u> x </u> yes	 <u> </u> no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	<u> </u> yes	<u> x </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> x </u> none reported
 Type of auditor's report issued on compliance for major programs:	 <u>Unmodified</u>	
 Any audit findings disclosed that are Required to be reported in accordance with 2 CDF 200.516(a)?	 <u> </u> yes	 <u> x </u> no

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010 84.027 & 84.173	Title I Grants to Local Educational Agencies Special Education Cluster (IDEA)

Dollar threshold used to distinguish between Type A and Type B programs:	<u> \$750,000 </u>
 Auditee qualified as a low-risk auditee?	 <u> </u> yes <u> x </u> no

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

Section II - Financial Statement Findings

2016-001: Material Weakness

Criteria

A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements, including recording government wide journal entries in order to reconcile from the fund financials to the government wide financials and ensuring all general ledger accounts are properly reflected on a GAAP basis.

Condition

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited, including recording government wide journal entries. As auditors, we were requested to propose entries to record debt proceeds, related expenditures and draft the financial statements, which include proposing government wide journal entries, and drafting the accompanying notes to the financial statements.

Cause

This control deficiency could result in a misstatement to the presentation of the footnotes in the audit ready financial statements.

Effect

Inadequate controls over financial reporting of the District results in more than a remote likelihood that the District would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation

The circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials and Planned Corrective Actions

The Bismarck School Board has decided to accept the degree of risk associated with the District not preparing its own financial statements due to the time and expense necessary to have staff prepare the statements prior to the annual audit.

Indication of Repeat Finding

This is a repeat of finding 2015-001 from the prior year.

2016-002

Criteria

In accordance with North Dakota Century Code 21-04-09, if a public corporation desires to deposit an amount greater than a depositories insurance (FDIC, FSLIC, or NCUE) and did not receive a personal or surety bond, the excess amount must be protected by a bond or by collateral, which, when computed at market value, shall be at least ten percent more than the amount of the excess deposit.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

Condition

The District had a balance of \$28,340,767 on deposit at one financial institution as of June 30, 2016 that was covered by \$500,000 of FDIC coverage with the remaining balance of \$27,840,767 collateralized with securities held by the pledging financial institution's agent in the District's name.

Cause

The value of pledged securities totaled \$30,482,644. The value of pledged securities required by North Dakota Century Code 21-04-09 was \$30,624,844. The District was under collateralized by \$142,200.

Effect

The District did not have all their deposits adequately covered by FDIC coverage and / or pledged securities as of June 30, 2016 and is not in compliance with North Dakota Century Code 21-04-09.

Recommendation

We recommend the District review all bank accounts and pledged securities to ensure all deposits are adequately covered by FDIC coverage and / or pledged securities.

Views of Responsible Officials and Planned Corrective Actions

Bismarck Public Schools utilizes Wells Fargo as one of its banks for business banking. In addition, BPS used Wells Fargo Advisors to invest in a "ladder" certificate of deposit. Wells Fargo Advisors elected to sell a \$200,000 certificate of deposit to Wells Fargo bank not realizing that the FDIC insurance was already used for business banking. As soon as Wells Fargo Advisors were made aware of this problem they immediately sold the CD to another bank and thus BPS is now adequately covered in relation to collateral.

Indication of Repeat Finding

This is a repeat of finding 2015-002 from the prior year.

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2016

2016-001

Contact Person

Darin Scherr, Business and Operations Manager

Corrective Action Plan

The management and School Board of Bismarck Public School District No. 1. do not feel it is cost beneficial to obtain and maintain this type of knowledge and expertise.

Completion Date

Bismarck Public School District No. 1 will implement when it becomes cost effective.

2016-002

Contact Person

Darin Scherr, Business and Operations Manager

Corrective Action Plan

The District will review all bank accounts and pledged securities to ensure proper collateral is in place.

Completion Date

Fiscal year 2017