

ALEXANDER PUBLIC SCHOOL DISTRICT NO. 2
Alexander, North Dakota

AUDIT REPORT
For the Year Ended June 30, 2018

LERVIK
&
JOHNSON

Certified Public Accountants

ALEXANDER PUBLIC SCHOOL DISTRICT NO. 2
Alexander, North Dakota

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For the Year Ended June 30, 2018

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ALEXANDER PUBLIC SCHOOL DISTRICT NO. 2
Alexander, North Dakota

SCHOOL OFFICIALS

At June 30, 2018

Official

Position

Jeremy Heen

Board President

Lashell Tjelde

Board Vice-President

Tim Nelson

Board Member

Darcy Delany

Board Member

Cameron Wahlstrom

Board Member

Leslie McDonald

Superintendent

Barbara Fixen

Business Manager

L & J O H N S O N

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

School Board
Alexander Public School District No. 2
Alexander, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Alexander Public School District No. 2, Alexander, North Dakota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 circumstance, 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 evaluation 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 and each major fund of Alexander Public School District No. 2, Alexander, North Dakota, as of June 30, 2018, and the respective changes in financial position in accordance with accounting principles generally accepted in the United States of America.

Other Matters


Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that budgetary comparison information on page 30, the schedule of district's share of net pension liability for the last ten fiscal years on page 31, the schedule of district's contributions for the last ten fiscal years on page 32, and the related notes on page 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted on 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2019, on our consideration of Alexander Public School District No. 2'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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Alexander Public School District No. 2's internal control over financial reporting and compliance.



LERVIK & JOHNSON
Certified Public Accountants
Bottineau, North Dakota

January 3, 2019

ALEXANDER PUBLIC SCHOOL DISTRICT NO. 2
Alexander, North Dakota

STATEMENT OF NET POSITION
June 30, 2018

ASSETS:

Current Assets:

Cash	\$ 3,829,376.41
Investments	250,000.00
Taxes Receivable	160,170.48
Due from Local Sources	68,897.47
Due from State Sources	134,831.84
Due from Federal Sources	160,157.84
	4,603,434.04

Total Current Assets

Noncurrent Assets:

Capital Assets (Net of Accumulated Depreciation)	18,906,024.00
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Total Assets

DEFERRED OUTFLOWS OF RESOURCES:

Deferred Outflows Relating to Pensions	670,257.64
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LIABILITIES:

Current Liabilities:

Accounts Payable	123,803.11
Salaries and Benefits Payable	11,998.52
Current Portion of Long-Term Debt	654,805.29
	790,606.92

Total Current Liabilities

Noncurrent Liabilities:

Long-Term Debt, Net of Current Portion	13,672,323.43
Premium on Bonds Payable (Net of Accumulated Amortization)	46,415.95
	13,718,739.38
Net Pension Liability	2,445,756.00
	16,164,495.38

Total Noncurrent Liabilities

Total Liabilities

DEFERRED INFLOWS OF RESOURCES:

Deferred Inflows Relating to Pensions	55,568.00
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NET POSITION:

Net Investment in Capital Assets	4,532,479.33
Restricted for:	
Special Reserve	155,000.00
Capital Projects	518,812.09
Debt Service	2,108,471.24
Unrestricted	(145,717.28)
	7,169,045.38

Total Net Position

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

ALEXANDER PUBLIC SCHOOL DISTRICT NO. 2
Alexander, North Dakota

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

	Program Revenues			Net (Expense) Revenue and Changes In Net Position
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Expenses				
GOVERNMENTAL ACTIVITIES:				
Regular Programs	\$ 1,978,213.09	\$ 35,880.40	\$ 163,075.50	\$ (1,779,257.19)
Special Education	147,160.72	28,752.48	-	(118,408.24)
Vocational Education	15,539.21	-	13,247.85	(2,291.36)
Federal Programs	91,136.18	-	97,938.36	6,802.18
District Wide Services	53,082.88	-	-	(53,082.88)
Administration	537,316.59	-	-	(537,316.59)
Food Service	220,436.74	80,180.44	63,927.65	(76,328.65)
Operations and Maintenance	793,761.19	-	-	(793,761.19)
Transportation	303,206.75	-	128,362.32	(174,844.43)
Other Programs and Services	61,072.53	-	-	(61,072.53)
Student Activities	76,612.36	-	10,224.00	(66,388.36)
Interest	606,678.26	-	279,647.86	(327,030.40)
Fees	510.00	-	-	(510.00)
Total Governmental Activities	\$ 4,884,726.50	\$ 144,813.32	\$ 756,423.54	\$ (3,983,489.64)

General Revenues:

Property Taxes	3,615,847.72
Federal Aid - not restricted to specific programs	385,782.87
County aid - not restricted to specific programs	384,436.64
State aid-not restricted to specific programs	585,514.21
Earnings on investments and miscellaneous revenue	240,108.41
Total General Revenues	5,211,689.85
Change in Net Position	1,228,200.21
Net Position - July 1	5,940,845.17
Net Position - June 30	\$ 7,169,045.38

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

ALEXANDER PUBLIC SCHOOL DISTRICT NO. 2
Alexander, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2018

	General	Special Reserve	Special Revenue	Capital Projects	Debt Service	Total Governmental Funds
ASSETS:						
Current Assets:						
Cash	\$ 1,015,845.63	\$ 155,000.00	\$ 58,110.57	\$ 628,174.08	\$ 1,972,246.13	\$ 3,829,376.41
Investments	250,000.00	-	-	-	-	250,000.00
Taxes Receivable	82,085.36	-	-	17,817.56	60,267.56	160,170.48
Due from Local Sources	67,255.44	-	-	248.76	1,393.27	68,897.47
Due from State Sources	-	-	-	-	134,831.84	134,831.84
Due from Federal Sources	160,157.84	-	-	-	-	160,157.84
Total Assets	\$ 1,575,344.27	\$ 155,000.00	\$ 58,110.57	\$ 646,240.40	\$ 2,168,738.80	\$ 4,603,434.04
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:						
Current Liabilities:						
Accounts Payable	\$ 14,192.36	\$ -	\$ -	\$ 109,610.75	\$ -	\$ 123,803.11
Salaries and Benefits Payable	11,998.52	-	-	-	-	11,998.52
Current Liabilities	26,190.88	-	-	109,610.75	-	135,801.63
Deferred Inflows of Resources:						
Property Taxes Uncollected	82,085.36	-	-	17,817.56	60,267.56	160,170.48
Fund Balances:						
Restricted	-	155,000.00	-	518,812.09	2,108,471.24	2,782,283.33
Committed	-	-	58,110.57	-	-	58,110.57
Unassigned	1,467,068.03	-	-	-	-	1,467,068.03
Total Fund Balances	1,467,068.03	155,000.00	58,110.57	518,812.09	2,108,471.24	4,307,461.93
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,575,344.27	\$ 155,000.00	\$ 58,110.57	\$ 646,240.40	\$ 2,168,738.80	\$ 4,603,434.04

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

ALEXANDER PUBLIC SCHOOL DISTRICT NO. 2
Alexander, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
For the Year Ended June 30, 2018

Total Fund Balances for Governmental Funds \$ 4,307,461.93

Amounts reported for governmental activities in the
Statement of Net Position are different because:

Capital assets used in governmental
activities are not current financial resources
and are not reported in the governmental funds.

Cost of Capital Assets	20,619,516.87	
Less Accumulated Depreciation	<u>(1,713,492.87)</u>	
Net Capital Assets		18,906,024.00

Noncurrent liabilities applicable to the
school district's governmental activities are
not due and payable in the current period
and, accordingly, are not reported in the
governmental funds. 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, 2018 are:

Long-Term Debt	(14,327,128.72)	
Net Pension Liability	<u>(2,445,756.00)</u>	
Net Amount		(16,772,884.72)

Premium on bonds payable are treated
as other financing sources in the governmental
funds, but are recorded as a separate item
and amortized over the life of the bonds in
in the Statement of Net Position.

(46,415.95)

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
governmental funds.

160,170.48

Deferred outflows and inflows of resources
related to pensions are applicable to future
periods and, therefore, are not reported
in the funds.

Deferred Outflows of Resources Related to Pensions	670,257.64	
Deferred Inflows of Resources Related to Pensions	<u>(55,568.00)</u>	

Total Net Position of Governmental Activities \$ 7,169,045.38

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

ALEXANDER PUBLIC SCHOOL DISTRICT NO. 2
Alexander, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

	General	Special Reserve	Special Revenue	Capital Projects	Debt Service	Total Governmental Funds
Revenues:						
Local Sources	\$ 2,539,887.42	\$ -	\$ 80,180.44	\$ 397,059.01	\$ 1,329,454.73	\$ 4,346,581.60
State Sources	874,906.30	-	553.20	24,875.34	254,772.52	1,155,107.36
Federal Sources	485,998.23	-	63,374.45	-	-	549,372.68
Total Revenues	3,900,791.95	-	144,108.09	421,934.35	1,584,227.25	6,051,061.64
Expenditures:						
Current:						
Regular Programs	1,760,693.79	-	-	-	-	1,760,693.79
Special Education	141,337.83	-	-	-	-	141,337.83
Vocational Education	15,539.21	-	-	-	-	15,539.21
Federal Programs	85,313.29	-	-	-	-	85,313.29
District Wide Services	50,174.48	-	-	-	-	50,174.48
Administration	536,558.80	-	-	-	-	536,558.80
Food Service	106,391.74	-	112,995.66	-	-	219,387.40
Operations and Maintenance	329,926.15	-	-	445,484.08	-	775,410.23
Transportation	205,026.80	-	-	-	-	205,026.80
Other Programs and Services	61,072.53	-	-	-	-	61,072.53
Student Activities	76,612.36	-	-	-	-	76,612.36
Capital Outlay	177,895.00	-	-	804,754.43	-	982,649.43
Principal	-	-	-	-	605,605.85	605,605.85
Interest	-	-	-	-	609,408.61	609,408.61
Fees	-	-	-	-	510.00	510.00
Total Expenditures	3,546,541.98	-	112,995.66	1,250,238.51	1,215,524.46	6,125,300.61
Excess of Revenues Over (Under) Expenditures	354,249.97	-	31,112.43	(828,304.16)	368,702.79	(74,238.97)
Other Financing Sources (Uses):						
Transfers In	-	155,000.00	-	-	395.21	155,395.21
Transfers Out	(155,395.21)	-	-	-	-	(155,395.21)
Proceeds from Bonds Payable	-	-	-	326,034.35	-	326,034.35
Total Other Financing Sources (Uses)	(155,395.21)	155,000.00	-	326,034.35	395.21	326,034.35
Net Change in Fund Balances	198,854.76	155,000.00	31,112.43	(502,269.81)	369,098.00	251,795.38
Fund Balance - July 1	1,268,213.27	-	26,998.14	1,021,081.90	1,739,373.24	4,055,666.55
Fund Balance - June 30	\$ 1,467,068.03	\$ 155,000.00	\$ 58,110.57	\$ 518,812.09	\$ 2,108,471.24	\$ 4,307,461.93

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

ALEXANDER PUBLIC SCHOOL DISTRICT NO. 2
Alexander, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Net Change in Fund Balances-Total Governmental Funds \$ 251,795.38

*Amounts reported for governmental activities in the
Statement of Activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Current Year Capital Outlay	982,649.43	
Current Year Depreciation Expense	<u>(214,995.43)</u>	
Net Amount		767,654.00

Proceeds from issuing noncurrent liabilities provide current financial resources to governmental funds, but issuing debt increases noncurrent liabilities in the Statement of Net Position. Repayment of noncurrent liabilities is an expenditure in the governmental funds, but the repayment reduces noncurrent liabilities in the Statement of Net Position.

Proceeds from Long-Term Debt	(326,034.35)	
Repayment of Long-Term Debt	605,605.85	
Amortization of Premium on Bonds Payable	<u>2,730.35</u>	
Net Amount		282,301.85

Some revenues reported in 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 increase in taxes receivable. 61,865.07

Governmental funds report district pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employer contribution is reported as pension expense. (135,416.09)

Change in Net Position of Governmental Activities \$ 1,228,200.21

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

ALEXANDER PUBLIC SCHOOL DISTRICT NO. 2
Alexander, North Dakota

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
June 30, 2018

ASSETS:

Current Assets:

Cash

\$ 64,998.61

LIABILITIES:

Current Liabilities:

Due to Student Activities Groups

64,998.61

NET POSITION:

Unrestricted

\$ -

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

ALEXANDER PUBLIC SCHOOL DISTRICT NO. 2
Alexander, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the school district have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The accompanying financial statements present the activities of the Alexander Public School District No. 2. The school district has considered all potential component units for which the school district is financially accountable and other organizations for which the nature and significance of their relationships with the school district are such that exclusion would cause the school district's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body or an organization being fiscally dependent and (1) the ability of the Alexander Public School District No. 2 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, Alexander Public School District No. 2.

Based on these criteria, there are no component units to be included within the Alexander Public School District No. 2 as a reporting entity.

B. Financial Statement Presentation

Government-wide financial statements: The Statement of Net Position and the Statement of Activities display information about the primary government, Alexander Public School District No. 2. These statements include the financial activities of the overall government, except for fiduciary activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The Statement of Net Position presents the school district's nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the school district's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including taxes, are presented as general revenues.

Under the terms of grant agreements, the school district funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the school district's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Fund Financial Statements: Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Any remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The school district reports the following major governmental funds:

General Fund. This is the school district's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Reserve Fund. The special reserve fund is used to account for financial resources to be used for the teacher's salaries, heat, lights and fuel for which the current budget is insufficient to meet current requirements.

Special Revenue Fund. This is the school district's hot lunch operating fund. It accounts for all financial resources related to food service.

Capital Projects Fund. This the school district's financial resources fund. It accounts for the acquisition, construction, maintenance and insurance of major facilities.

Debt Service Fund. The debt service fund is used to account for financial resources to be used for the repayment of principal and interest on long-term debt.

The school district does not have any nonmajor governmental funds.

The school district reports the following fiduciary fund types:

Agency Fund. This fund accounts for assets held by the school district in a custodial capacity as an agent on behalf of others. The school district's agency fund is used to account for various deposits of the student activity funds.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe **how** transactions are recorded within the various financial statements, and include the economic resources measurement focus and the current financial resources measurement focus.

Economic resources measurement focus: The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial or non-financial) are reported in the financial statements.

Current financial resources measurement focus: Under this measurement focus, only current financial assets and liabilities are generally included on the balance sheet. The operating statements present sources and uses of available, spendable financial resources during any given period. Using the current financial resources measurement focus, principal and interest on long-term debt, claims and judgments, and compensated absences are recorded as expenditures only when payment is due. This measurement focus also requires capital asset acquisitions to be reported as expenditures, and proceeds of general long-term debt and acquisitions under capital leases to be reported as other financing sources.

Basis of accounting refers to **when** the transactions are recorded, regardless of the measurement focus applied. The school district uses the accrual and the modified accrual bases of accounting, as discussed below.

Government-wide Financial Statements

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the school district gives (or receives) value without

directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting in the governmental fund financial statements. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the school district considers revenue to be available if they are collected within 60 days after year-end. All revenues are considered to be susceptible to accrual.

Under the modified accrual basis of accounting, expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, differences exist from accrual accounting related primarily to payments involving long-term assets and liabilities. These differences were discussed above in the explanation of the current financial resources measurement focus.

D. Budgets

Based upon available financial information and requests by the school board, the superintendent and business manager prepare the school district budget. The budget is prepared for the general fund on the modified accrual basis of accounting. The budget includes the proposed expenditures and the means of financing them. The school district does not prepare a budget for the special revenue or capital projects funds, as state law does not require a budget for those funds. Since budgets were not prepared, the statements comparing budget and actual results could not be prepared. All annual appropriations lapse at year-end.

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

E. Cash, Cash Equivalents and Investments

Cash and cash equivalents includes amounts in demand deposits, money market accounts and commercial paper. These amounts must be deposited with the Bank of North Dakota or in a financial institution 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 uninsured balance.

State statutes authorize the school district to invest in:

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

Investments during the year ended June 30, 2018 consisted of certificates of deposit at cost.

F. Interfund Transactions

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

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

In the government-wide financial statements, interfund transactions have been eliminated.

G. Capital Assets

Capital assets include plant and equipment, and are reported in the government-wide financial statements. Capital assets are defined by the school 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 the assets 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 over the following estimated useful lives:

Buildings and Improvements	50 years
Equipment	10 years
Vehicles	10 years

H. Noncurrent Obligations

In the government-wide financial statements, noncurrent obligations are reported as liabilities in the governmental activities Statement of Net Position. Bond premiums or discounts are capitalized and amortized over the term of the related obligation. Bond issuance costs are recorded as expenditures when paid.

With respect to the presentation of governmental funds in the governmental fund financial statements, the face amount of debt issued is reported as another financing source. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

I. Fund Equity

Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as non-spendable, restricted, committed, assigned or unassigned.

Non-spendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation.

Committed Fund Balance - represents amounts that can only be used for specific purposes imposed by a formal action of the school district's highest level of decision-making authority, the school board. Committed resources cannot be used for any other purpose unless the school board removes or changes the specified use by the same type of action previously used to commit those amounts, either by resolution or by ordinance.

Assigned Fund Balance - represents amounts the school district intends to use for specific purposes as expressed by the school board or an official delegated the authority to assign amounts. This is the residual classification for all governmental funds other than the general fund. As of June 30, 2018, the school board has not granted any official the right to assign amounts to a specific purpose.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the school district's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications - committed, assigned and then unassigned fund balances. The school district has not established a policy for its use of unrestricted fund balance amounts. As such, it considers committed amounts to be reduced first, followed by assigned amounts, and then by unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

J. Pensions

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

K. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: EXCESS OF ACTUAL EXPENDITURES OVER BUDGET

Expenditures exceeded budget in the general fund by \$319,298.64 for the year ended June 30, 2018. No remedial action is anticipated or required by the school district regarding these excess expenditures.

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENT INCOME

The school district's deposits at year-end were entirely covered by federal depository insurance or by collateral held by the school district's agent in the school district's name.

Custodial and Concentration of credit risk:

For deposits and investments, the custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the school district will not be able to recover collateral securities that are in the possession of an outside party. As discussed in Note 1-E, state statutes require the market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. The school district's deposits were adequately protected by insurance or collateral at June 30, 2018, and throughout the entire fiscal year then ended. These deposits are Category 1 deposits that include insured and registered investments for which the securities are held by the school district.

Interest rate risk:

Generally, the longer the maturity period of an investment, the greater the sensitivity of its fair value to changes in market interest rates. In accordance with its investment policy, the school district invests its operating funds primarily in short term certificates of deposit and limits the average maturity in accordance with the school district's cash requirements.

Investment Income:

Non-operating investment income includes interest income of \$3,086.55, rental income from teacher housing of \$96,538.30, and oil royalties of \$16,179.02 for the year ended June 30, 2018.

NOTE 4: TAXES RECEIVABLE

The taxes receivable represents the past three years of uncollected current and delinquent taxes. No allowance has been established for uncollectible taxes receivable.

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

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments. The first installment includes one-half of the real estate taxes and all the special assessments and the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed. Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the discount on the property taxes.

NOTE 5: DUE FROM LOCAL SOURCES

The amount due from local sources consists of the cash on hand for taxes collected but not remitted to the school district at June 30, as well as amounts due from local sources for reimbursement of special education payroll costs and tuition.

NOTE 6: DUE FROM STATE SOURCES

The amount due from state sources consists of Interest Buy-down Funds for June 30, 2018.

NOTE 7: DUE FROM FEDERAL SOURCES

The amount due from federal sources consists of amounts due to the district from the federal government for Title I, Title II-A, Title III, Carl Perkins, Flood Control and Public Domain for the year ended June 30, 2018.

NOTE 8: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2018:

	Balance 7/1/2017	Increases	Deletions	Balance 6/30/2018
Governmental Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Work in Progress	\$ 15,610,673.06	\$ 736,665.43	\$ 16,317,008.66	\$ 30,329.83
Total Capital Assets Not Being Depreciated	15,610,673.06	736,665.43	16,317,008.66	30,329.83
<i>Capital Assets Being Depreciated:</i>				
Buildings	2,547,165.00	16,385,097.66	-	18,932,262.66
Equipment	551,521.32	-	-	551,521.32
Vehicles	927,508.06	177,895.00	-	1,105,403.06
Total Capital Assets Being Depreciated	4,026,194.38	16,562,992.66	-	20,589,187.04
<i>Less Accumulated Depreciated for:</i>				
Buildings	948,388.78	57,468.60	-	1,005,857.38
Equipment	91,119.37	59,346.88	-	150,466.25
Vehicles	458,989.29	98,179.95	-	557,169.24
Total Accumulated Depreciation	1,498,497.44	214,995.43	-	1,713,492.87
Total Capital Assets Being Depreciated, Net	2,527,696.94	16,347,997.23	-	18,875,694.17
Capital Assets, Net	\$ 18,138,370.00	\$ 17,084,662.66	\$ 16,317,008.66	\$ 18,906,024.00

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

	Year Ended June 30, 2018
Governmental Activities:	
Regular Programs	\$ 93,748.99
Transportation	98,179.95
Operations & Maintenance	18,350.96
Food Services	1,049.34
District Wide Services	2,908.40
Administrative	757.79
Total Depreciation- Governmental Activities	\$ 214,995.43

NOTE 9: ACCOUNTS PAYABLE

Accounts payable consists of amounts owed for goods and services received prior to June 30 and chargeable to the appropriations for the year then ended, but paid subsequent to that date.

NOTE 10: SALARIES AND BENEFITS PAYABLE

Salaries and benefits payable consists of amounts withheld from employees which have not yet been remitted to the proper recipient by June 30.

NOTE 11: DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Like revenues and expenses, deferrals represent flows of resources into and out of a government during the fiscal year. However, unlike revenues and expenses, which are inflows and outflows of resources related to the period in which they occur, deferrals are related to future periods.

Deferred inflows and outflows on the school district's statement of net position are related to the determination of the school district's net pension liability and pension expense, as detailed in Note 15.

Deferred inflows of resources on the fund financial statements consist of amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting such amounts are measurable but not available. The school district's only deferred inflow of financial resources on its fund financial statements is uncollected property taxes, which are not expected to be collected within the allotted 60 day time period after year end in order to qualify as available under the school district's policy.

NOTE 12: TRANSFERS AND INTERFUND RECEIVABLE/PAYABLE

The general fund transferred \$155,000.00 to the special reserve fund to pay for future expenses and \$395.21 to the debt service fund for debt payments for the year ended June 30, 2018, respectively.

NOTE 13: NONCURRENT LIABILITIES

During the year ended June 30, 2018, the following changes occurred in liabilities reported in long-term liabilities:

	Balance 7/1/2017	Additions	Deletions	Balance 6/30/2018	Current Portion
General Obligation School Building Bonds	\$ 14,606,700.22	\$ 326,034.35	\$ 605,605.85	\$ 14,327,128.72	\$ 654,805.29

General Obligation School Building Bonds, Series 2015

On July 1, 2015, the school district approved the issuance of \$7,100,000.00 General Obligation School Building Bonds, Series 2015, for the purpose of constructing, remodeling, improving and equipping school buildings and to make site improvements to school property. The bonds are dated July 1, 2015, with annual payments ranging from \$290,000.00 to \$480,000.00 including interest at 3% to 3.75% per annum. Payments are made February 1 and August 1, commencing February 1, 2016. The net proceeds included a premium of \$54,607.00 that is being amortized over the term of the bond.

General Obligation School Building Bonds, Series 2015B

On March 1, 2016, the school district approved the issuance of \$10,000,000.00 General Obligation School Building Bonds, Series 2015B, for the purpose of constructing, remodeling, improving and equipping school buildings and to make site improvements to school property. The bonds have semi-annual payments of \$392,376.13, including interest at 5% with an interest buy-down to the rate of 2%. Payments are due on June 1 and December 1. The bond proceeds are included in Capital Projects fund and will be paid for by the debt service fund.

Outstanding debt at June 30, 2018 consists of the following issues:

\$7,100,000.00 general obligation school building bonds, series 2015 due in annual installments ranging from \$290,000.00 to \$480,000.00, including interest, through August 1, 2034; interest ranges from 3% to 3.75% and is paid semi-annually.	\$ 6,490,000.00
\$10,000,000.00 general obligation school building bonds, series 2015B, due in semi-annual installments of \$392,376.13, including interest through December 1, 2035; interest is at 5%.	<u>7,837,128.72</u>
Total	14,327,128.72
Current Portion	<u>(654,805.29)</u>
Net Long-Term Portion	<u>\$ 13,672,323.43</u>

Interest Buydown

Alexander Public School participated in the Bank of North Dakota Interest Buydown program. Under this program the BND paid \$279,647.86 for the year ending June 30, 2018, respectively, in order to buydown the school's interest rate on the \$10,000,000.00 General Obligation Building Bonds described above, by approximately 3%. These amounts were recorded as a reduction to interest expense.

Future payments on long-term debt are as follows:

Year Ending June 30,	Bond Payable		Interest Buydown
	Principal	Interest	Refund
2019	\$ 654,805.29	\$ 656,471.97	\$ 269,968.15
2020	676,754.81	629,847.45	259,798.47
2021	699,562.40	602,214.86	249,113.92
2022	723,271.49	573,530.77	237,888.46
2023	747,927.74	543,749.52	226,094.71
2024-2028	4,181,128.42	2,228,557.88	931,579.72
2029-2033	5,125,244.83	1,255,366.47	533,109.88
2034-2035	1,518,433.74	127,527.11	83,381.11
	<u>\$ 14,327,128.72</u>	<u>\$ 6,617,266.03</u>	<u>\$ 2,790,934.42</u>

NOTE 14: FUND BALANCE

Fund balance as of June 30, 2018 is as follows:

June 30, 2018:	General	Special Reserve	Special Revenue	Debt Service	Capital Projects	Total
Fund Balances:						
Restricted						
Special Reserve	\$ -	\$ 155,000.00	\$ -	\$ -	\$ -	\$ 155,000.00
Bond Security Fund	-	-	-	2,108,471.24	-	2,108,471.24
Capital Projects	-	-	-	-	518,812.09	518,812.09
Committed						
Food Service	-	-	58,110.57	-	-	58,110.57
Unassigned	1,467,068.03	-	-	-	-	1,467,068.03
	<u>\$ 1,467,068.03</u>	<u>\$ 155,000.00</u>	<u>\$ 58,110.57</u>	<u>\$ 2,108,471.24</u>	<u>\$ 518,812.09</u>	<u>\$ 4,307,461.93</u>

NOTE 15: PENSION PLANS

The school district has one employee pension plan, the North Dakota Teachers' Fund for Retirement (TFFR).

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.

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

Pension Benefits

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

Tier 1 Grandfathered

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

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

Tier 1 Non-grandfathered

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

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

Tier 2

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

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

Death and Disability Benefits

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

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

Member and Employer Contributions

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

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

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

At June 30, 2018, the school district reported a total liability of \$2,445,756.00 for its proportionate share of TFFR's net pension liability. The net pension liability was measured as of July 1, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The school district's proportion of the net pension liability was based on the school district's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2017, the school district's proportion related to TFFR was 0.178064 percent, which was an decrease of 0.002759 percent from its proportion measured at July 1, 2016.

For the year ended June 30, 2018 the school district recognized total pension expense of \$291,923.00. At June 30, 2018 the school district reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Year Ended June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 9,381.00	\$ 26,699.00
Changes of assumption	174,324.00	-
Net difference between projected and actual earnings on pension plan investments	33,783.00	-
Changes in proportion and differences between district contributions and proportionate share of contributions	296,261.00	28,869.00
District contributions subsequent to the measurement date	156,508.64	-
Total	<u>\$ 670,257.64</u>	<u>\$ 55,568.00</u>

\$156,508.64 reported as deferred outflows of resources related to pensions resulting from the school district's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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:	TFFR
2018	\$ 98,704.00
2019	151,694.00
2020	118,517.00
2021	60,310.00
2022	364,993.00
Thereafter	(7,543.00)

Actuarial assumptions:

The total pension liabilities in the July 1, 2017 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used were based on the results of an actuarial experience study dated April 30, 2015. They are the same as the assumptions used in the July 1, 2017 funding actuarial valuations for TFFR.

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

- Investment return assumption lowered from 8% to 7.75%.
- Inflation assumption lowered from 3% to 2.75%.
- Total salary scale rates lowered by 0.25% due to lower inflation.
- Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.

- Rates of turnover and retirement were changed to better reflect anticipated future experience.
- Updated mortality assumption to the RP-2014 mortality tables with generational improvement.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	58%	7.3%
Global Fixed Income	23%	0.9%
Global Real Assets	18%	5.3%
Cash Equivalents	1%	0.0%

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 for the July 1, 2015 funding actuarial valuation:

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

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2017. 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, 2017 Actuarial Valuation Reports, respectively. 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, 2017. 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, 2017.

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

The following presents the school district's reported proportionate share at June 30, 2018 of the net pension liability calculated using the current discount rate of 7.75 percent, as well as what the school district's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	District's Proportionate Share of Net Pension Liability		
	Current Discout		
	1% Decrease (6.75%)	Rate (7.75%)	1% Increase (8.75%)
June 30, 2018	\$ 3,251,674.00	\$ 2,445,756.00	\$ 1,774,851.00

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

NOTE 16: RISK MANAGEMENT

The Alexander Public School District No. 2 is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The Alexander Public School District No. 2 pays an annual premium to NDIRF for its general liability and automobile insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile.

The Alexander Public School District No. 2 also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The Alexander Public School District No. 2 pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the political subdivision with blanket fidelity bond coverage in the amount of \$1,568,000.00 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The Alexander Public School District No. 2 has insurance with North Dakota Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

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

NOTE 17: SUBSEQUENT EVENTS

The school district has evaluated subsequent events through January 3, 2019, the date which the financial statements were available to be issued.

ALEXANDER PUBLIC SCHOOL DISTRICT NO. 2
Alexander, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2018

	Original and Final Budget	Actual	Variance Positive (Negative)
<u>Revenues:</u>			
Local Sources	\$ 1,757,919.81	\$ 2,539,887.42	\$ 781,967.61
State Sources	1,320,713.00	874,906.30	(445,806.70)
Federal Sources	195,878.66	485,998.23	290,119.57
Total Revenues	3,274,511.47	3,900,791.95	626,280.48
<u>Expenditures:</u>			
Current:			
Regular Programs	1,720,468.62	1,760,693.79	(40,225.17)
Special Education	48,504.80	141,337.83	(92,833.03)
Vocational Education	16,000.00	15,539.21	460.79
Federal Programs	67,070.70	85,313.29	(18,242.59)
District Wide Services	85,493.06	61,072.53	24,420.53
Administration	79,128.12	50,174.48	28,953.64
Food Service	475,288.31	536,558.80	(61,270.49)
Operations and Maintenance	332,357.68	329,926.15	2,431.53
Transportation	124,917.40	106,391.74	18,525.66
Other Programs and Services	192,822.45	205,026.80	(12,204.35)
Student Activities	85,192.20	76,612.36	8,579.84
Capital Outlay	-	177,895.00	(177,895.00)
Debt Service			
Principal		-	-
Total Expenditures	3,227,243.34	3,546,541.98	(319,298.64)
Excess (Deficiency) of Revenues Over (Under) Expenditures	47,268.13	354,249.97	306,981.84
Other Financing Sources (Uses):			
Transfers In (Out)	-	(155,395.21)	(155,395.21)
Net Change in Fund Balances	47,268.13	198,854.76	151,586.63
Fund Balance - July 1	1,268,213.27	1,268,213.27	-
Fund Balance - June 30	\$ 1,315,481.40	\$ 1,467,068.03	\$ 151,586.63

See accompanying notes to required supplementary information.

ALEXANDER PUBLIC SCHOOL DISTRICT NO. 2
 Alexander, North Dakota

SCHEDULE OF DISTRICT'S SHARE OF NET PENSION LIABILITY
 LAST 10 FISCAL YEARS*

	As of and for the Year		
	2018	2017	2016
	Ended June 30,		
	2018	2017	2016
ND Teachers' Fund for Retirement:			
1. District's proportion of the net pension liability (asset)	0.178064%	0.180823%	0.153171%
2. District's proportionate share of the net pension liability (asset)	\$ 2,445,756.00	\$ 2,649,158.00	\$ 2,003,255.00
3. District's covered-employee payroll	\$ 1,201,881.00	\$ 1,174,850.00	\$ 942,165.00
4. District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	203.49%	225.49%	212.62%
5. Plan fiduciary net position as a percentage of the total pension liability	63.20%	59.20%	62.10%
			180.64%
			66.60%

* Complete data for these schedules is not available prior to 2015. The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

See accompanying notes to required supplementary information.

ALEXANDER PUBLIC SCHOOL DISTRICT NO. 2
 Alexander, North Dakota

SCHEDULE OF DISTRICT'S CONTRIBUTIONS
 LAST 10 FISCAL YEARS*

	As of and for the Year			
	Ended June 30,			
	2018	2017	2016	2015
ND Teachers' Fund for Retirement:				
Statutorily required contribution	\$ 153,240.00	\$ 149,793.00	\$ 120,120.00	\$ 89,321.00
Contributions in relation to the statutorily required contribution	\$ (153,240.00)	\$ (149,793.00)	\$ (120,120.00)	\$ (89,321.00)
Contribution deficiency (excess)	-	-	-	-
District's covered-employee payroll	\$ 1,201,881.00	\$ 1,174,850.00	\$ 942,165.00	\$ 830,899.00
Contributions as a percentage of covered-employee payroll	12.75%	12.75%	12.75%	10.75%

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

See accompanying notes to required supplementary information.

ALEXANDER PUBLIC SCHOOL DISTRICT NO. 2
Alexander, North Dakota

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2018

NOTE 1: BUDGETARY COMPARISON SCHEDULE

Basis of Accounting:

Based upon available financial information and requests by the school board, the business manager prepares the school district budget. The budget is prepared for the general fund on the modified accrual basis of accounting. The budget includes the proposed expenditures and the means of financing them. The school district does not prepare a budget for the special revenue, capital projects, or debt service funds, as state law does not require a budget for those funds. Since a budget was not prepared, the statement comparing budget and actual results could not be prepared. All annual appropriations lapse at year-end.

Relevant Dates:

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

NOTE 2: EXCESS OF ACTUAL EXPENDITURES OVER BUDGET

Expenditures exceeded budget in the general fund by \$319,298.64 for the year ended June 30, 2018. No remedial action is anticipated or required by the school district regarding these excess expenditures.

NOTE 3: PENSION PLANS

TFFR Changes of Assumptions. Amounts related to TFFR reported in 2016 and later reflect the following actuarial assumption changes based on the results of an actuarial experience study dated April 30, 2015.

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

L & JOHNSON

Certified Public Accountants

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

School Board
Alexander Public School District No. 2
Alexander, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Alexander Public School District No. 2, Alexander, North Dakota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Alexander Public School District No. 2, Alexander, North Dakota's basic financial statements and have issued our report thereon dated January 3, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Alexander Public School District No. 2, Alexander, North Dakota'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 Alexander Public School District No. 2, Alexander, North Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of Alexander Public School District No. 2, Alexander, North Dakota's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material 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 responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses, items 18-1 and 18-2, to be material weaknesses.

Compliance and Other Matters

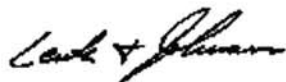
As part of obtaining reasonable assurance about whether Alexander Public School District No. 2, Alexander, North Dakota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Alexander Public School District No. 2's Response to Findings

Alexander Public School District No. 2, Alexander, North Dakota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Alexander Public School District No. 2, Alexander, North Dakota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion on it.

Purpose of this Report

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



LERVIK & JOHNSON
Certified Public Accountants
Bottineau, North Dakota

January 3, 2019

ALEXANDER PUBLIC SCHOOL DISTRICT NO. 2
Alexander, North Dakota

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2018

Our audit of Alexander Public School District No. 2, Alexander, North Dakota found the following material weaknesses:

18-1 Segregation of Duties

Condition:

The Alexander Public School District No. 2, Alexander, North Dakota, has one person responsible for most accounting functions.

Criteria:

There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over the assets of the school.

Effect:

There is no segregation of duties as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements. This increases the risk of misstatement of the school's financial condition.

Recommendation:

Due to the size of the school, it is not feasible to obtain proper separation of duties and no recommendation will be made.

Client Response:

At the present time the Alexander Public School District No. 2 has segregated the accounting duties in the most effective manner possible, given its limited staff. Due to cost constraints, there will be no further administrative employees added.

18-2 Preparation of Financial Statements

Condition:

The Alexander Public School District No. 2, Alexander, North Dakota, does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to assist in drafting the financial statements and accompanying notes to the financial statements. This 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.

Criteria:

A good system of internal accounting control contemplates a system designed to prepare financial statements in accordance with generally accepted accounting principles.

Effect:

Inadequate controls over financial reporting of the school district result in the more than remote likelihood that the school 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:

While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the school district and changes in reporting requirements.

Client Response:

Since it is not cost-effective for an organization our size to have staff to prepare audit-ready financial statements, we have chosen to hire Lervik and Johnson P.C., a public accounting firm, to assist in the preparation of the financial statements as part of their annual audit of Alexander Public School District No. 2, Alexander, North Dakota.